The Outlook

Railroad Strike Settled—Can Europe Afford the Extravagance of Another War?—Shrinkage in Taxes—The Market Prospect

SETTLEMENT OF THE STRIKE

FINAL settlement of the railroad strike has been achieved at last, although not through the efforts of the Government or the Railroad Labor Board. Success has come as a result of private negotiations between the roads and the employees, culminating in the establishment of individual agreements. Announcement is, in fact, made that the roads and men are inclined to go back to the older plan of independent negotiations. Unofficially, the statement is made that in so doing the contesting parties are actuated by a feeling that there has been too much politics and weakness in the management of the strike situation on the part of the Washington authorities. Altogether, therefore, the principal outcome of the strike appears to be a setback for the policy of Gevernment regulation of labor disputes, especially in the transportation field.

This was to have been expected, in view of the composition of the Labor Board and the fact that no real power was given to it by the Transportation Act. It would seem that the next step in public control of transportation would necessarily be found in some revision of the law which would provide for a more adequate means of settling disputes.

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FINANCIAL ASPECTS OF THE WAR SITUATION

THE fresh outbreak of war in the Near East has not yet gone far enough to throw positive light upon its probable effects in a commercial way, but it is at least sufficiently clear that they must be considerable. None of the Western European countries are in position to incur any further war charges whatever. Their budgets are already tremendously topheavy, and to add even the cost of a moderate "expeditionary force" is wellnigh out of the question. Commercial and industrial systems are out of gear, and banks in this country as well as in Great Britain, have for several months past been more than hesitant about making any further advances designed to finance the movement of American goods abroad.

Those who expect a large sale of comodities consequent upon further warlike demonstrations are likely to reckon without their host, especially in view of the fact that it is difficult to see how payment could be made for such goods as we might ship abroad. On the other hand, this country is already a very large holder of foreign bonds which must necessarily suffer in quotation from an outbreak of hostilities, and particularly from participation of countries whose securities are directly held here. From all standpoints, therefore, the further unsettling of European conditions may be regarded as an injurious factor in the business situation, and through it upon the financial situation.

* * *

PRESIDENT HARDING'S VETO

PRESIDENT HARDING has at length vetoed the bonus bill which Congress sent to him shortly before adjournment. His action in so doing has undoubtedly been the outcome of long and painful deliberation on his part, and it may well be assumed that he would not have determined upon any such action had it not proven to be an absolute necessity. This, indeed, all the circumstances clearly indicate.

Undoubtedly the immediate consideration which has, more than anything else, defeated the bonus has been the tremendous burden of taxation under which the public is laboring. Congress has not dared to add to this load. It might have done so had there been a possibility of increasing the yield

to be derived from the income and excess profits taxes. Experience this year, however, has shown that these taxes are not an indefinite source of revenue, as some had supposed, but that they are, on the contrary, in danger of drying up. That being the case, the only source of supply apparently in sight was a sales tax, or some other similar type of taxation which would have fallen back upon the general rank and file of the population, and in so doing would have taken out of the pockets of bonus recipients about as much as they received.

So obviously ridiculous an outcome could not be endured, even independent of the political questions which it raised. The bonus situation has thus proven itself an impossible one, the more so in view of our total inability to collect any part of the principal of our foreign claims, notwithstanding that this had been relied upon by bonus legislators as a source of the money with which to settle their obligations to the "veterans."

* * *

WHY TAXES SHRINK

RETURNS from the third income-tax instalment pay-September 15 show that the situation in this fiscal year is likely to run nearly parallel to that of last year. Complete figures for the fiscal year 1921-1922 showed a reduction of 35 to 40% in income and excess profits taxes. The September 15 returns for this district show about a 35% reduction, as compared with last year, and the recession will undoubtedly be greater in other districts. This seems to indicate that income and excess-profits tax yields have now definitely been shifted from the high war basis to a normal footing. The belief that they could be greatly raised by simply raising the rates is erroneous.

A study of yields in the different income groups shows that the income tax is nowhere more disappointing than in the high-yield incomes. This is partly the result of the gradual transfer of large fortunes into tax-exempt securities, but it is also due to the fact that the mushroom incomes produced by the war have disappeared and are not likely to come back again. More taxes could be raised by increasing the rate on the lower classes of incomes which now bear it, but to do so would practically destroy the margin of saving possesed by the so-called "middle class."

It would then not be long before the reduction of saving and investment would make itself felt in the same way that it has already—a curtailment of demand for securities and of funds available for investment. Congress could get a very large increase in taxes by lowering the tax exemption and thus bringing in a vast number of incomes which now do not pay taxes at all. Should it do this, we should probably have an entirely new and different Congress—a fact of which our legislators are keenly aware. Cut off from this resort, Congress must reconcile itself to the shrinking of tax yields under the present unscientific and discriminating system, coupled with the ever-increasing volume of tax-exempt securities.

* * *

THE TREASURY CERTIFICATE ISSUE

SECRETARY MELLON, in receiving an enormous over-subscription for the $200,000,000 3¾% Treasury notes, finds his opinion as to the rate of interest now current for Government credit amply sustained. Indeed, with so great a demand for the certificates, there are some who believe that another ¼ of 1% off from the rate would not have cut down the subscription beyond the amount sufficient to give the Government all the funds that it requires. This may or may not be so. What is certain is that the Government credit at the present time is higher than it has been at any period since the armistice, and, of course, far higher than that of any other government in the world.

In these circumstances, the time has apparently arrived for decisive action looking to the refunding of our large outstanding debt which as yet is unprovided for, inasmuch as a great volume of it matures during the next few years. In calling for the return of a substantial fraction of the outstanding Victory Notes during December next, Secretary Mellon has at least opened the possibility that he may at that time undertake some refunding plan on a larger scale than heretofore.

When he will decide to put out an issue of long-term bonds intended to take up the short-dated indebtedness of the Government is, of course, still uncertain, but the time will naturally be when a conclusion is reached that market rates are practically at a bottom figure. Has not that time been practically arrived at today? A part of the answer may depend upon conditions in Europe and their reflection in this market, but with the disposal of the bonus and with commercial demand for funds as scant as it now is, the time seems to be unusually favorable for a large operation on the debt.

* * *

TEMPORARY ADJUSTMENT OF REPARATIONS

NEWS that the long-drawn controversy between Germany and the Allies has terminated in an arrangement whereby security is given to Belgium to protect the Treasury notes which Germany is to supply in payment of the current reparations instalment, brings to a close, for the time being, the issue which has been developed between the two countries. This settlement should give at least a temporary respite to Germany, during which presumably some recovery might be attained. Unfortunately, there is but little to encourage the belief that such a recovery can occur. Germany continues to be overburdened with obligations, while her foreign credit was never lower than at present. The course of the mark during the past few weeks has not been such as to encourage the belief that any permanent improvement could be expected.

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MARKET PROSPECT

THE recent reaction of four points in the average of fifty stocks has greatly improved the overbought situation which previously existed, but there is no reason to believe that the direction of the long swing has changed. Until the market furnishes some evidence of this, any severe reactions will doubtless prove to be buying opportunities; but, of course, a four-point reaction is not severe.

In such an event great discrimination should be used in order to confine investments to those groups whose earnings are likely to further expand. A number of industries will be affected by the new tariff measure which became law September 22. Others are preparing for larger operations next year. Investment demand is still broad and persistent.

Monday, September 25.

A Message to the American Bankers Association

How the Banking Community May Perform Even More Notable Service Than It Has in the Past

By H. PARKER WILLIS
Formerly Secretary of the Federal Reserve Board

THE meeting of the American Bankers Association on this occasion (Oct. 2-7, 1922) falls at a time of unusual importance. It is a time when the banking system of the United States is in many ways on trial and when the financial relations of the United States to the remainder of the world are in a position of exceptional doubt and uncertainty. These facts are so fully understood that they require no demonstration. But the question how the American banking public should deal with them calls for careful and immediate consideration.

Growth of Unsound Ideas

There need be no ignoring of the fact that during the past year there has been a large growth of unsound and dangerous ideas in the United States as regards problems of money and banking. The fact that some citizens, distinguished in an industrial way, have allowed themselves to adopt dangerous heresies, which, if generally accepted, would be destructive to our standard of value is well known. Undoubtedly a large following has been developed by these hazardous ideas. Unsound notions on banking and money are practically permanent in the minds of the population. There can, however, be no question that a great increase in cohesiveness and strength has been given to them by the leadership which has come from public acceptance of these notions on the part of business men of eminence and success.

Has not the American Bankers Association an important responsibility and duty in connection with this situation?

The Raid on the Federal Reserve System

There is an aspect of the present banking situation which is closely allied in thought to the growth of unsound general ideas already referred to, even though there be no superficial connection between them. This is seen in the persistent attempt to raid the Federal Reserve System. It has been sought by a large and influential group of legislators during the past season to obtain from Congress enactments which would result in giving to special classes in the community a favored position as bank borrowers. In some cases this effort has been made through the proposal of legislation which would supply the desired funds by preferred discounts at Federal Reserve banks, but in others it has been sought to obtain them through a direct grant of Government funds which in turn would be obtained through taxation or borrowing—in many cases the latter. Such borrowing must necessarily fall in its ultimate incidence upon the banking funds of the country. In either aspect, therefore, the effect of special legislative groups or "blocs" to raid the funds of the community, embodied in bank assets, must be regarded as a danger of the most portentous description.

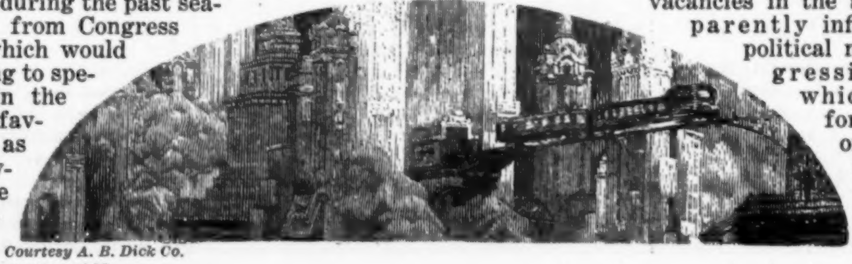
There are now pending in Congress a large number of bills designed to effect the objects already thus described; while at least one of them has received a qualified support from our banking authorities, who have apparently been disposed to regard it as the least of the various evils presented to them. This is the measure which would authorize the creation of representatives of intermediate farm credit, running for three years, and discountable, when within a certain distance of maturity, at Federal Reserve banks.

Is it not the duty of the American Bankers Association, acting as custodian of the fluid funds of the country, to express itself without reservation regarding the dangerous character of these proposals?

Politics in Our Banking System

When the Federal Reserve System was first organized it was with the assertion that the system was designed to end the interference of the Government in banking, and to take politics out of the banking system. Instead of this, politics has been more than ever allowed to get a foothold and to exert an influence of continuous importance in the establishment of banking policies. Ever since the organization of the Federal Reserve System, this constant interference offered by the political authorities at Washington has been a dangerous menace to its stability and sound management. The situation is no less hazardous today, but in some respects more so, by reason of the fact that the appointments to vacancies in the system are apparently influenced by the political motives of congressional groups which are urgent for the adoption or abandonment of this or that policy.

(*Continued on page* 862)



Courtesy A. B. Dick Co.

GENERAL MARSHALL is eminently qualified to discuss the labor and wage situation, for he has come into contact with labor in this country on a scale true of few other men. He was chief of the Construction Division of the Army during the latter part of the war and afterward, for a period of three years, and as such, directed the greatest emergency building task in all history, involving thousands of projects and the expenditure of eight hundred millions of dollars. He is now, in his capacity as General Manager of the Associated General Contractors of America, head of the construction industry of America.

GENERAL RICHARD C. MARSHALL, JR.

Will Immigration Law Cripple Industry?

Effect of Restriction of Aliens on Labor and Wages

By GENERAL RICHARD C. MARSHALL, Jr.

THE recurring industrial depressions of the business cycle are usually ushered in by two phenomena. One is overproduction as compared with current demand, and the other is the advance of prices to an unbearable degree. These two factors usually run together, but sometimes one leads, or is more influential than the other.

As things are going now, the first general check to the new era of prosperity that is upon us will come from increasing prices rather than from overproduction. Generally speaking, I believe that all authorities are agreed that after some years of starvation consumption in this country, there is very little danger of our getting to a point where normal stocks will be restored and normal consumption resumed within two or three years at least.

Generally, it may be said that it is extreme and feverish commercial and industrial activity which results in a surplus of goods that dams up the current of the industrial stream and causes a rapid increase in labor and other production costs. At present, however, the situation seems to be the reverse. Although it is only a year ago that President Harding felt it his duty to call a national conference to consider what to do about the industrial unemployment situation that then existed, we have today—before anything like an industrial boom has appeared—a practical shortage of labor. This labor shortage is very marked in the building trades, as is evidenced by many instances of contractors bidding against one another for workmen, and has become so acute in the iron and steel industry that many steel companies have recently announced voluntary wage increases, caused by the necessity of holding their men against the inducements held out by other employers.

A Most Unusual Situation

I do not believe that there is a parallel to this situation in the whole of our national history. With business failures still running 50% above normal, with unfilled steel tonnage 19% below normal, with the whole agricultural population still suffering severely from deflation of the prices of its products, and with many other evidences that we are not yet back on an even plane of prosperity, we find ourselves confronted by a labor shortage and rising labor costs. Already, in from three to six months, increasing labor and material prices have very noticeably increased building costs long before they got down to what we thought was a reasonable basis; and the danger symptoms of bonus payments to workmen and of competitive bidding for labor by industrial groups again appear. As wages are approximately 44% of the direct cost of building, the effect of their increase on construction costs is at once evident.

In cities such as New York and Chicago, contractors are paying from $2.00 to $3.00 a day in excess of the agreed scale of wages to secure sufficient common labor. Common labor is receiving $8.00 and $9.00 for an eight-hour day. As a result skilled workers are becoming restive and any effort to bring construction wages in line with decreasing costs in other industries is stubbornly resisted.

Why, it may be asked, should the nation after two years of business quiescence so suddenly jump from a plethora of labor to an embarrassing shortage?

A complete answer to this question would deal with many factors, such as the restriction of immigration, the shifting of population back from industrial centers to the farms, the decreased pro-

ductiveness of American labor, the extraordinary vigor of the demand for goods consequent upon the unusually complete exhaustion of stocks during the recent depression, and the reaction of shortage caused by the war and not yet filled, although suppressed during the past two years.

Restriction of Immigration

Of these factors, especially when considered with a view to the future, immigration restriction is by all odds the most important. An examination of the immigration figures as reported by the Department of Labor reveals the astounding fact that for the twelve months ending with last June, the net immigration was only 88,520, and that there was an actual loss of about 10,000 in men; the surplus of immigration over emigration being only in women and children. It is true that the present immigration restriction law, which limits the number of persons who may come into this country from across the seas to three per cent of the total number of aliens of those regions living in the United States in 1910, does contemplate the annual entry of 360,000 persons. In fact, the actual admissions from Old World countries fall considerably below the number permitted by the law, because those who wish to come here from many of those countries is far less than their allotted quota, while the would-be immigrants from other countries are more numerous than their quotas. The law does not permit the deficiency of the former class to be made up from the excess of the latter. The actual outcome, when emigration is deducted from immigration, is that the new law, instead of admitting 45% of the normal population influx of other years actually admits only 11%; and as I have already remarked, there is an actual net loss in men when emigration is taken into account. The effect, then, of the immigration law is not only to reduce the volume of incoming immigration labor, but to wipe it out, and in fact turn the current the other way. We are actually undertaking a new era of industrial prosperity and activity with a diminishing instead of an increasing labor supply, so far as concerns our reliance upon foreign countries.

Even if our industrial activity in this country were not to expand, we need a certain volume of alien labor; and if it is to go on growing as it has in the past, we must have a still larger volume of alien, and especially of common laborers.

Labor is not a fixed caste in this country, and sons do not follow in their father's course in life. In Europe, where social class lines have long been crystallized, workmen's sons succeed their fathers, and the labor supply is fairly steady, and increases proportionately with the growing population of the nation as a whole. With us, on the contrary, the tendency is actually for the number of our native-born workmen to decrease as the population increases, because there is a continual shifting in this country from the callous-handed class to the white-collar class. Throughout our history the main source of our common labor has been immigration. Skilled mechanics are not replaced from native sources as fast as they are eliminated by disability or death. The skilled American workman is not usually succeeded by his son. His place is often taken by the son of a foreign born common laborer. So, to restrict the supply of common labor is to reduce also the number of skilled workers.

In construction alone, we need approximately 35,000 new skilled workers, and also 12,000 additional common laborers annually, merely to replace those lost by death or other causes. As construction employs about 22% of the skilled and common laborers of all the mechanical and manufacturing industries, as classified by the United States Census, it is substantially the fact that this country requires not less than 214,000 new manufacturing and mechanical workers annually to replace losses caused by death and retirement.

More Common Laborers Needed

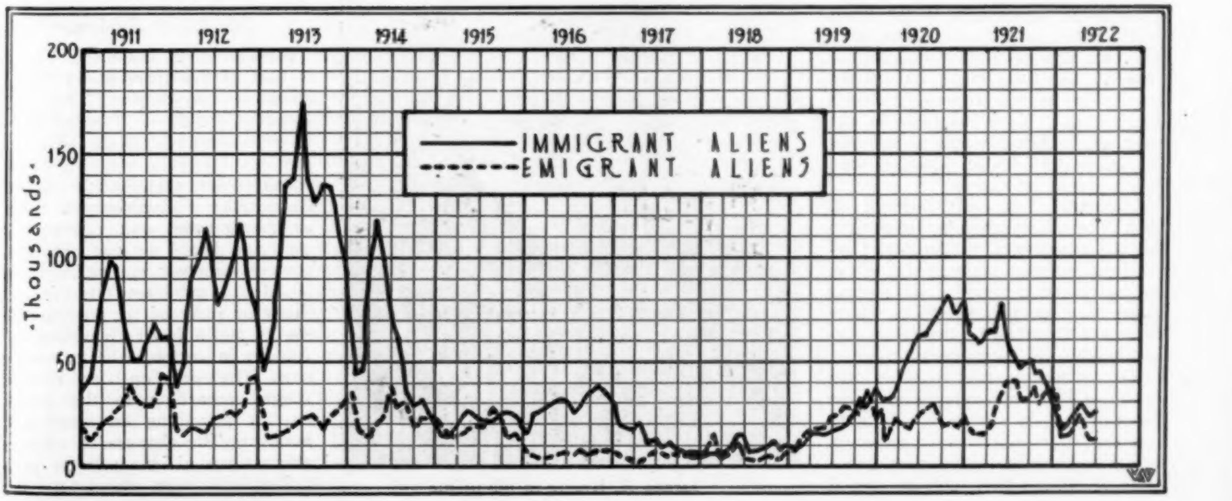
The population of this country is increasing at the rate of 1,400,000 annually or about 14 per thousand, so that to keep pace with the growth of population and its increasing requirements for goods and consequently for labor (without even considering higher standards of living, which would increase consumption faster than population), the United States requires an addition of 14 manual laborers annually per thousand already in the trade. Applying this rate to the 11,000,000 men in manufacturing and the mechanical industries we find that we must add 154,000 to the replacement figures above given, making a total of 368,000 new workers needed annually.

Against this requirement we have at present a net increase due to immigration of only 88,520 women and children, and a net loss of adult males.

Then again, of the men who enter the country under the present immigration law, the number of productive workers is negligible. Examination of the immigrants shows that only a small portion of them are fit recruits for the manual labor of this country. This is due to the skill of certain racial groups, whose members belong to the trading and clerical class, in meeting the requirements of our present immigration laws, and to the fact that the immigrants must be able to read and write. Under educational conditions prevailing in large sections of Europe, this latter requirement ordinarily excludes the common laborer. The educational requirement was well intentioned, but it is not working out as intended. The actual net result is that it is admitting women and children and men of the clerical class, but very few manual workers.

I would not have it understood that I am in favor of again opening wide the gates to immigration. What we should do is to make our immigration laws qualitative rathern than quantitative. We are in a position to make our own choice and take the pick of those who shall be admitted to our shores. What we need above all just now is immigrants of the sturdy, honest, common labor type. Such people are not only the best recruits for our industrial army, but in the end they are the best recruits for our citizenship.

(*Continued on page 866*)



Livermore's Methods Analyzed

2. Arrangement of His Office—How He Resembles James R. Keene—His Interpretation of The News

By RICHARD D. WYCKOFF

Note.—What interests us in presenting this series is that Mr. Livermore, with a natural and developed genius for reading the tape, made his success in buying and selling securities only after he became a spec-vestor. His principal operations are conducted just as are those of a merchant who, accurately foreseeing future demand for certain goods, purchases his line and patiently awaits the time when he may realize a profit. And just as legitimately, when he foresees an oversupply, he contracts to deliver in future goods which he believes will then be purchasable at lower prices. Mr. Livermore says: "There is no magic about success. No man can succeed unless he acquires a fundamental knowledge of economics and conditions of every sort."

The outstanding value of this series is that it tells the average business man, who numbers 87% of our readers, and with whom investment and spec-vestment is necessarily a side line, that one need not be a stock market genius to make money in securities.

While few people are by nature gifted to become great operators, a knowledge of his methods will be a very important contribution to stock market literature, as Mr. Livermore's methods prove that the best results may be obtained, not by active trading, but by a careful study of the factors which influence the market, trade conditions, analytical analysis of corporations, all of which are found regularly in The Magazine of Wall Street.

THE environment in which Jesse Livermore does his day's work is one which he has created for himself. It is the outgrowth of his long experience in the business of trading in stocks.

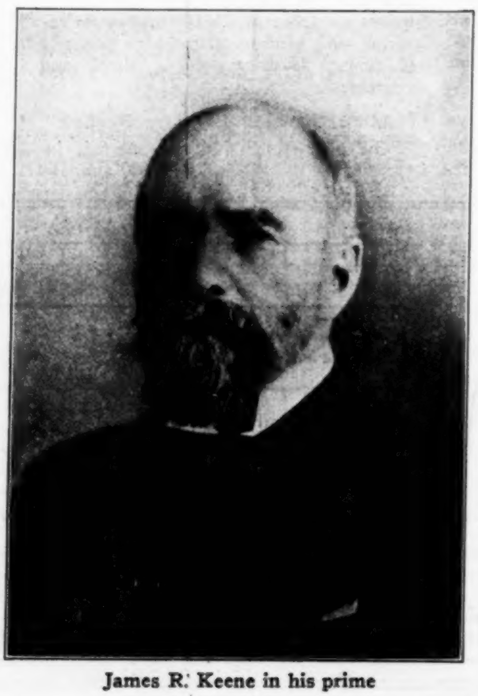
Atmosphere is a well known Wall Street term, usually applied to the psychological conditions existing in the Street, but more particularly in the brokerage offices where those who buy and sell securities are accustomed to gather. The atmosphere of the brokerage office varies with the character of the business and the number and average mentality of its clients. There are small offices with a few tickers and other brokerage paraphernalia, a customer's man and a partner or two. It seems like a quiet place, but it is not. A period of fifteen minutes' consecutive thought without interruption is almost impossible. Through all conversation runs the usual line of tips and gossip exchanged between brokers and clients. Concentration is out of the question unless one possesses the doubtful advantage of being deaf and dumb. In the larger offices, with big quotation boards, audienced by twenty-five or fifty customers, the atmosphere is ten times more tense and more impossible from the standpoint of a professional trader. The little knots around the small, low tickers are sewing circles for gossip. Your neighbor in the next chair always wants to tell you his hopes and fears: what he sees, hears, thinks or knows.

Livermore has been through all this. For a long while he did not enjoy the advantages of silence and seclusion, but for many years since, he has made a practice of trading from his own private offices where he is not disturbed by the demoralizing hubbub of a customers' room.

The morning journey from his town house or his summer home at Great Neck is made by automobile; he does not use railroad trains or subways. Many wealthy and prominent financiers do so, but they have no special reason for avoiding contact with other people. Livermore has; he knows that if he mixes during the trip to his offices, the subject is bound to turn to the stock market, and he will be obliged to listen to a lot of tips and gossip which interfere with the formation of his own judgment. Playing a lone hand, he does his own thinking and he does not wish to have his mental processes interfered with morning, noon or night.

Poise, an Indispensable Adjunct

One of the most indispensable qualifications to a trader in his position is poise—that state of mental balance which enables him to regard any situation calmly, and from an unbiased point of view, uninfluenced by hopes, or fears. He possesses this desirable characteristic to a most remarkable degree—was evidently born with it and has highly cultivated it since.



James R. Keene in his prime

Most of all does he hate tips. A person with even small experience in Wall Street knows how frequently one will decide to act upon a situation in a certain way, and how readily one is thrown off the course he has mapped out for himself by some insidious suggestion. Having carefully studied out the effect of all these influences he has long since learned that he gets the best results by excluding any element that in the least interferes with the formation of his judgment which is based on facts, sound reasons and logical conclusions.

Among other practices in his own self-development, he has undertaken a study of psychology. I do not mean that he has merely pondered over the psychological effect of this or that Wall Street phase; he has taken a course—become a student of psychology, just as he has delved into every other factor that will to any degree aid him in his life work. He does not dabble in anything.

His Office Equipment

He arrives at his office, which is on one of the upper floors of a big downtown skyscraper. There is no name on the door. It consists of a reception room, private offices for some of his assistants, and his own private office, separated by swinging doors from his board-room. This is an oblong room with a long silicate quotation board on one side and a row of windows opposite. On the board are exhibited quotations for thirty or forty of the leading active stocks, and a few each of the active futures in cotton, wheat, corn and oats. The quotation board is not arranged according to the ordinary custom prevailing in brokerage houses. The changes in quotations are not posted by means of printed tickets containing merely the open-

ing, high, low and last figures; instead, each stock has its own column running the full length of the board, in which the various changes in quotations are written with chalk, with the numerous sales strung along down below the abbreviations. He prefers this kind of board because it gives him a line on the swings of a stock, the extent of its rallies and reactions, as well as its relative activity. The volume of trading does not appear on the board; he gets this from the tape.

A stock, a cotton, a grain and a news ticker stand in front of the board, several feet away and in the center of it, so that he reads the tape with the light back of him, and he has but to raise his eyes to see any stock on the board.

In many brokerage offices you see low tickers with bases surmounted by round table tops, and three or four traders gathered about them, some of whom have either to crane their necks or read the tape upside down. Livermore does not believe in low tickers except for use during the brief intervals when he sits down at the desk in his private office. There he has a battery of them. For general use he wants them tall so that he has to stand up to look at them. He believes that among the many factors that have contributed to his mastery of the business, is the fact that he uses tall tickers, for they keep him on his feet in an erect position so that he can breathe properly and his circulation will be unimpeded. The crouched or lounging position assumed by those who sit around the low tickers, is in direct contrast. He is on his feet practically all day. His telephoning is also done in a standing position. Thus he gets a certain amount of exercise.

With the exception of the quotation board, the chief arrangements in his offices greatly resmble the office of the late James R. Keene, the eminent stock-market operator in whose private office it was my privilege to spend many interesting hours. Mr. Keene also used a high ticker and stood on his feet during the market session, stepping back and forth to the telephone a few feet away, or to the booths in the adjoining private office. When not reading the tape—a process in which his piercing eyes seemed to bore into the very vitals of the market—Mr. Keene had a peculiar method of pacing back and forth from the ticker down toward the other end of his office and back, each step taken with a rigidity and a precision, and accompanied by a metronome—like swinging of his clenched fists, expressing a most intense determination.

His tape reading seemed to be done at regular intervals, with a certain number of steps taken as above described, thus apparently dividing his views of the tape into a series of pictures flashed one at a time across his vision, with the short walks serving as periods for digestion of what he had observed. I have previously referred to the value of regularly separated intervals in the study of the market as well as the speed with which these alterations occur.

In the course of our discussion Mr. Keene would stand facing the ticker, and I on the opposite side. With eye glasses in his right hand, he would emphasize his points; but he would talk just about so long; then his eyes would drop to the tape. Once they fastened on the paper ribbon, I could go on with the conversation but he would not hear a word. His concentration when reading the tape was so complete that all other subjects were completely eliminated. He might step to the 'phone and ask, "Who's buying that Reading?" or "What's going on in B. R. T.?" Then he would come back and study the tape, take his specified number of paces, finish his mental process, come out of his trance and pick up the conversation where he left off.

In many respects Livermore resembles Keene. Most of all in his eyes, with the lids slightly dropping at the sides, and a similar penetrating quality. His nose, too, is like Keene's—prominent at the bridge. I leave it to experts on physiognomy as to just what that means, but I know that Livermore, like Keene, is deep, sagacious, ingenious, resourceful, self-reliant, far-sighted and possessing lion-like courage. In their methods of operating, too, I find many points of resemblance. Some of these I will explain in chapters to follow.

> "THERE is no magic about success in the stock market. The only way I know for anyone to succeed in his investment is for him to investigate before he invests; to look before he leaps; to stick to fundamentals and disregard everything else."
>
> —Livermore.

Very few people can reach Livermore by telephone or in person. He receives some mail, but answers very little. He has no time for correspondence. The market is a man's job. The people he sees or the letters he writes, bear a close relation to the market and his operations therein, or he cannot devote the time to them. This is in line with his practice of excluding all non-essentials.

Watching the News

I have already shown that in part, the formation of his judgment grows out of his early morning studies of the fundamentals; but his decisions as to the right stocks and the right time for action are based on what he sees on the tape. The news ticker always plays its part in keeping him in touch with developments as they are flashed along the wires from all parts of the world. He and his assistants keep one eye on the news ticker because a certain report, a paragraph, a line, or sometimes a word will have an important influence on his market position. But he does not merely accept such statements at anything like the face value given them by the public. He endeavors to interpret the real situation disclosed, or the real purpose behind the publication of the items. No one knows better than he that the market is made by and is a reflection of the minds of many men; that some of these men are more powerful than others, that as fellow players in this great game they often endeavor to influence public sentiment so as to induce buying or selling by others. He reads between the lines in search of indications as to what "they" are trying to do.

In one of my previous writings I have described Wall Street as a vast hopper into which, all day long, there pours an unceasing supply of news of every sort—railroad, industrial, corporation earnings, weather reports, items relating to banking, crops, money markets, gold imports, world developments, and thousands of other items bearing upon the stock, bond or commodity markets—all of them influencing to a certain degree the general business situation. Livermore interprets these news items in two ways: first, he judges their direct or indirect bearing on the market or the individual stocks, and next, he observes on the stock ticker the effect of the news—as to how it influences the buying or selling of special stocks for the market as a whole. His own interpretation of a news item may be absolutely opposite from that expressed by the market, but he knows that if the development be of sufficient importance it will, sooner or later, make its impress on the tape. He therefore endeavors to anticipate the time when other large operators will alter their market positions so as to adjust themselves to the new situation.

If the methods of Jesse Livermore were to be told in two words, they would be these: *He anticipates.*

What a certain company is doing today does not interest him so much as the tendency of the industry in which that company is engaged and its relative standing in that industry. Take the case of a leading speculative stock — Studebaker. In 1920 this stock was selling between 38 and 40. It had, during the previous year, sold as high as 151, paid 7% cash dividends and a common stock dividend of 33⅓% in May, 1920. In the opinion of Livermore, this stock had no right to sell so low, but what interested him more, the tape showed that important accumulation was going on at that level. He knew that conditions which brought about that decline could not continue indefinitely; that the industry was bound to recover sooner or later; and his observations showed him that large insiders must have felt the same way or they would not have been buying the stock.

As he described the transaction to me, it seemed simple enough. "I saw what was going on and I took on a lot of the stock around 40. When it got above 90, it was very apparent what they were try-

(*Continued on page* 886)

Linking Up Farmer and Investor

An Opportunity for Investors That Would Be Created Through Establishment of Short-Term Credits for Farmers

By HON. ARTHUR CAPPER

U. S. Senator from Kansas

WHEN Congress convenes again in December the Finance Committee of the Senate Farm Bloc expects to have ready a rural personal credits measure that will command the united support of all members of Congress and others who believe that something fundamental must be done for financing the marketing operations of American agriculture. It is my firm conviction that unless such legislative relief is extended it will be found that the returning prosperity of which there is so much vaunting will be only a flash in the pan. If that is true, the proposed legislation is not for the farmers alone but for all the people.

While there are indubitable evidences that business is much recovered I am justified in saying that **the economic position of the great staple crop farmers of the country is really worse than a year ago even if not so agonizing as it was in the midst of readjustment and deflation.** The farmers of the northeastern regions who are near to their markets and have not suffered from the oppressive transportation charges, as the western and southern farmers have, and are more favored in some other respects are comparatively well off, though many of them also suffer from the present maladjustment between agriculture and other economic groups. In a business sense agriculture is about half of the nation, and paraphrasing Lincoln's dictum on slavery, the nation cannot prosper if it is half overpaid and half underpaid.

Wholesale prices have been advancing for six months and now retail prices and the general cost of living are again ascending, but wheat is down to 75 or 80 cents on the farm, and hogs have lost the margin of profit they had a year ago.

The Purchasing Power of the Farmer

As a whole, the farmer is still selling low and buying high. His product has nowhere near the purchasing power of the products of other industries as compared with the assumed normal of pre-war times, but even then he suffered in the exchange of his products for the things he required. After making all possible allowance for the fact that agriculture has taken the brunt of readjustment, the fact remains that it has been going downhill for years.

This retrograde movement is to be attributed chiefly to the weak financial position of agriculture and its lack of business organization in the midst of a world of such organization. The one causes the other and the farmer moves around in a vicious circle of helplessness. A start has been made in organization but it is only a start, and it requires the stimulus of adequate financing to go far.

After he produces, the farmer becomes a merchant, but a merchant without the credit facilities of the middlemen and speculators with whom he deals. When they have unlimited funds with which to buy he has none with which to hold back from selling, and to bargain on terms of equality. In fact, he sells not according to his judgment and the trend of the market but according to the dictates of pressing necessity or of the masters of such limited credit as he may have. Moreover, he pays more for his slender and precarious credit accommodation than the buyers do for their ample and dependable facilities. Not infrequently he pays 8 and 9 per cent and sometimes more on paper which is rediscounted in the Federal Reserve banks for 4½ per cent.

> **"I KNOW of nothing which will contribute more to the general welfare and prosperity than a well-financed agricultural industry which is on an equal marketing footing with the distributing agencies and will have a voice in fixing the prices of its product. At present the farmer buys at a price fixed by the seller and sells at a price fixed by the buyer. All he is asking is to be put in a position where he shall have something to say about the price of what he sells. If it is worth while to have an efficient and sound agricultural industry, it is worth while to do that much for him."**
>
> **—Senator Arthur Capper.**

Under existing rural personal credit facilities the borrowing radius of the individual farmer is necessarily limited. He has no reliable method of drawing on the investment-funds of the country for financing his operations, as men in other activities have, but is dependable on local facilities of a limited nature. There are virtually no financial institutions that meet the peculiar requirements of an industry that markets its products only once a year and that sometimes—as in live stock growing—requires three years to finish its product.

The War Finance Corporation has been very helpful the past year, but it is only an emergency agency. It has, however, demonstrated beyond a doubt that there is a great field for rural financing, and that it is one of legitimate and dependable banking. It is a field that might well be cultivated by private initiative, but since that is lacking now, as since time immemorial, governmental assistance is imperative unless the nation is content to see agriculture continue to decline. This does not mean subsidizing agriculture; it means only the use of a public agency to realize a beneficent purpose not otherwise attainable. If the government will provide credit channels the farmers will ultimately pay all the costs thereof, just as they are now doing in the case of the Federal Land Banks which are contributing much to solve the probable of rural investment capital in the shape of farm mortgage loans. In fact, it may be said that what we now propose to do for agriculture is merely to extend to operating credits or working capital the same system that has succeeded so well for long-time real estate loans.

Bills Under Consideration

It is believed by some that it will require from $250,000,000 to $500,000,000 to meet the requirements of orderly marketing in critical periods. One of the bills now before us proposes to create a credits corporation with $500,000,000 capital; another names $200,000,000. The principle of all the bills that our committee deems worthy of mature consideration is essentially the same, viz., that a governmental agency under whatever name—one proposal being that it shall take the form of short-time loan departments of the twelve Federal Land Banks—which shall lend money on agricultural commodity paper which is to be used as security for the issuance by the agency of its notes or debentures running from six months to three years. These debentures, we are assured by competent financiers, would have a wide and ready market and would make the farmer's credit radius nation-wide. It is not necessary to discuss here the details, such as inspection, grading and warehousing, which would be corollaries of loans based on warehouse receipts for actual commodities, and such features as tax exemption of the debentures and relations with the Federal Reserve system. There is no doubt whatever that such a system would be sound, its obligations sought after and its benefits to agriculture certain. At the same time it would be a great boon to the investing public, for it would provide a wide field for safe and profitable short-time investments which would be as mobile as any government security. In this way a fundamental industry would be regularly and dependably financed according to its requirements, less expensively than at present and to the benefit of investors. Bankers have nothing to fear from it unless they are extortioners, for it is intended that the new agency shall supplement private facilities and work with and even through them, as it is designed to rediscount agricultural paper as well as to make original loans under certain conditions.

Investors' Vigilance Committee

Conducted by The Magazine of Wall Street in Cooperation With the Chambers of Commerce and Other Business Organizations

IN the past fortnight 47 different propositions have been submitted to the Investors' Vigilance Committee for analysis—and most of them did not require an analysis. It is amazing to see some of the literature that comes in, and the wonder of it is that more than one-half of one per cent of it is able to get through the mails.

The 47 different propositions mean, moreover, that something over 60 requests for opinions were received. Some of the promoters are working so hard that samples of their bombastic literature have been received here from cities a thousand miles apart. This is particularly true of the oil promotions that are working out of Fort Worth, Texas.

Evidence of the application of bucket shop methods to the distribution of worthless near-stock has accumulated, though it is difficult as yet to identify these newcomers to the field of fake promotion. In the bucket shop exposé conducted by THE MAGAZINE OF WALL STREET late last year it was disclosed that some of the operators were conducting businesses under a dozen different names, without even once using their correct ones. Now that they have jumped two-thirds of the way across the continent they appear to have adopted still different appellations.

The Use of Telegrams

The bucket shop operators—two or three of those who managed to pull through are still using this plan in New York and out of their branch offices—had a way of rushing the prospect in by means of telegrams despatched at night letter rates to hundreds of intended victims. The fake stock promoters are beginning to employ the same method of stampeding—or endeavoring to stampede—the public into buying their wares. It costs money to send a 50-word telegram from Fort Worth to Chillicothe, Ohio, but only a week ago one of these form-telegrams was received there after having travelled from Texas to the Buckeye State by wire. To one familiar with the operations of the bucketeers it was plain that the letter was of the type that goes out by the hundreds as the final effort in a string of follow-ups by mail. It gave a last despairing chance to the supposed dupe to get in on the ground floor provided he wired his subscriptoin and sent the money immediately by mail—and even then the added bait was held out that the subscription *might* be rejected if it was received after the last few available shares remaining were taken.

One of the interesting prospectuses received this week described an invention that offers limitless opportunities. It blazes the way into a new field for the Edisons and the Marconis and the Bells of the future.

This invention—the promoter has a Louisiana state license to sell stock, by the way, so it *must* be good—is an attachment to cure cattle of the practise of straying on railway tracks. The inventor claims it is "one of the best covered patents ever issued by the Patent Office." It ought to be. It is probably basic. It is doubtful if any other inventor ever thought of it. Here it is:

Solved by Mustard

A tank full of a mustard solution is to be carried on every locomotive that is lined up in this educational cattle drive. When bossy strays on the track the engineer waits until the engine is right on top of her, and then—p-sss-t! he pulls a lever and a charge of mustard solution leaps through the air in front of the engine, strikes bossy in the eyes and spatters all over her, burning right through burrs, hair and hide to the nerves. Whereupon, not being immune to liquid mustard plasters, Miss Muley Cow scampers away from there and goes some place else. Ever after, says the inventor, that cow will make a bee line for elsewhere whenever she hears "a noise coming down the track."

Just what will happen to the locomotive if Miss or Mrs. Cow or Mr. Bull, while blinded by mustard water, rams the locomotive instead of leaving the county, is not foretold by the promoter.

Anyhow, here is a chance to buy all that is left of less than 500 shares, at $100 a share. One thing can be said for this invention however: judging from the recommendations it has actually interested some operating railway officials who confine themselves though to voicing their belief in the integrity of the inventor and express their willingness to give it a tryout on one small Southern road. The promotion itself is not in the fraudulent stock class—but it hardly ranks with United States Steel which pays 5 per cent and is selling around $100 a share, the same as the price asked for the stock of the company that is starting out to cure the cow family of acting like an actor on his way back to Broadway.

The Chambers of Commerce and other business organizations that are cooperating with the MAGAZINE OF WALL STREET in the operation of the Investors' Vigilance Committee are showing more interest and enthusiasm with each week. Readers of the magazine will do well to turn over to their local organizations the literature they receive through the mail, and many organizations already have requested their members to do this. No better method of protecting the community from the sharpers has been devised than this central clearing house for information relative to the activities of stock promoters, particularly where it develops that the promoters have records of former promotions that never got out of their swaddling clothes.

In the Next Issue

HOW U. S. IS AFFECTED BY WORLD COMPETITION

Where do we stand in the world markets is a question which is agitating all thoughtful Americans. Is the gain we made in world trade during the war-years permanently to be ours or are we doomed to lose our gains? An interesting side-light is thrown on this important subject in the next issue.

* * *

A VERY ATTRACTIVE PUBLIC UTILITY STOCK

Though public utility stocks, as a group, have had a very large advance and though many of them are no longer attractive from the viewpoint of profit-possibilities, there are still a few which are out line with the rest of their group. One of them, in particular, is selling at such an attractive price that it is thought worth while to make special mention of it.

THE OUTLOOK FOR THE ELECTRICAL INDUSTRY

In an exclusive interview with THE MAGAZINE OF WALL STREET in the next issue,

GENERAL GUY E. TRIPP

Chairman of the Westinghouse Elec. & Manufacturing Company, gives his views and impressions of the prospects facing the great electrical industry. No holder of securities representing this important industry should fail to read this article.

How the Leading Stocks Compare

Contrasting the Earnings of the Companies in the Various Groups and Their Market Price—A Guide to Investors

By E. D. KING

WE are now rapidly drawing on to that period of the year when calculations of the probabilities with regard to the earnings of the various companies in which public interest is manifested are in order. While such calculations necessarily involve a certain amount of hazard inasmuch as no one can accurately foretell what the rest of the year will bring, the fact is that the year has already proceeded to a point where concrete earning results for the first half of the year have become known and on that basis a fair approximation of what are likely to be the earnings of the principal companies can be made.

It Should Be Noted

At this point, the writer hastens to make the statement that the estimated earnings as shown in the accompanying table are just what they appear to be—*estimates*—they are not actual earnings though it should be noted that in every case they include earnings already reported for the first six months of the year. In the case of the railroads, estimates have been made on the basis of earnings for the first seven months of the year.

Actual earnings results of course will be modified by factors contributory to the situation for the balance of the year but that they are likely to vary widely from the figures submitted in this table is rather open to doubt.

In any case, the importance of the figures submitted lies in the relation of earnings to the market price of the shares. In this manner, an excellent comparison may be had of the relative position of the leading stocks within the leading groups. It will be seen that, based on the relation between earnings and market position, some stocks are more attractive than others.

All things equal, a stock earning 20% of its market valuation is more attractive as a purchase than a stock earning but 5% of its market valuation. For example, a stock selling at 100 and earning at the rate of $20 a share indicates a percentage of 20% on its market price. Generally speaking, such a stock is greatly more attractive than a stock selling at 100, earning only $10 and showing merely 10% on its market price. Perhaps no better way can be devised to show investors which are the most attractive stocks on the list.

Many Companies Eliminated

The analysis made in this article is the result of a careful search into the earnings record made this year by every stock listed on the New York Stock Exchange. A great many companies were eliminated at the start because familiarity with the position of these companies at once indicated that they were hopeless prospects so far as earnings were concerned. For example, it would have been useless to incorporate in this list such companies as Interborough Consolidated, Saxon Motors, Chile Copper and others whose stocks are of more or less varying value because it was known in advance that these companies were not earning an amount on their stocks sufficient to warrant incorporating them in this table.

Proceeding further in this elaborate analysis, a great many companies also were discarded because they were earning but little and inasmuch as the purpose was to select stocks which were earning the most on their market price, issues which were earning the least were necessarily omitted from the discussion.

The net results, however, were to bring to light a list of 47 companies, divided more or less equally among the various groups—railroads, public utilities and industrials. While the groups themselves offer a sharp contrast with regard to the relation of their earnings to their market price—thus the railroads as a group are in the most attractive position, the industrials next and public utilities last—the most striking contrasts are between the individual members of the respective groups.

STOCKS EARNING THE GREATEST AMOUNTS ON THEIR MARKET VALUE

RAILROADS

Stock	Market Price Sept. 20	1922 *Estimated Earnings	% Earned on Market Price
C. C. C. & St. Louis	77	$29.35	38.11
Chesapeake & Ohio	76	21.00	27.63
St. Louis-San Francisco	30	8.15	27.16
Toledo, St. Louis & Western	64	17.50	27.03
M., K. & T.	19	5.00	26.31
N. Y. C. & St. Louis	88	21.60	24.54
Pere Marquette	38	7.55	20.00
Atlantic Coast Line	123	20.70	16.83
Norfolk & Western	123	20.35	16.54
New Orleans, T. & M.	72	11.35	15.76
Pennsylvania R. R.	47	7.30	15.53
St. Louis Southwestern	33	5.00	15.15
Baltimore & Ohio	57	8.10	14.21
Wabash	12	1.60	13.33
New York Central	98	13.05	13.16
Illinois Central	113	14.30	12.65
Erie 1st Pfd.	25	2.85	11.40
		Average,	18.85

PUBLIC UTILITIES

Stock	Market Price Sept. 20	1922 †Estimated Earnings	% Earned on Market Price
North American	94	$20.00	21.27
Detroit Edison	114	14.00	12.27
Columbia Gas & Electric	110	12.00	10.80
Western Union	118	12.00	10.17
Pacific Gas & Electric	84	8.50	10.12
Laclede Gas	90	9.00	10.00
People's Gas	93	9.00	9.67
Philadelphia Co.	43	4.00	9.30
American Tel. & Tel.	123	11.00	9.00
P. S. of N. J.	92	8.00	8.69
Consolidated Gas	141	10.00	7.08
		Average,	10.15

INDUSTRIALS

Stock	Market Price	1922 †Estimated Earnings	% Earned on Market Price
Hupp Motors	23	$6.00	26.08
Mexican Petroleum	190	40.00	21.05
Consolidated Cigar	34	7.00	20.82
Studebaker	132	25.00	18.18
Butterick	20	3.50	17.50
J. Kayser	46	8.00	17.39
White Eagle Oil	29	5.00	17.24
Pond Creek Coal	21	3.00	14.28
Comp.-Tab.-Rec.	74	10.00	13.51
Famous Players	103	13.00	12.74
California Petroleum	64	8.00	12.50
Associated Dry Goods	60	7.00	11.66
Amer. La France	13	1.50	11.53
General Motors	14	1.50	10.71
Stewart-Warner	47	5.00	10.63
Coca-Cola	72	7.50	10.42
Endicott-Johnson	87	9.00	10.34
Mack Truck	58	6.00	10.34
Loew's, Inc.	20	2.00	10.00
		Average,	14.59

* Estimated on basis of earnings for first seven months.

† Estimated on basis of earnings for first six months and probable earnings for balance of year. Seasonal fluctuations in earnings considered.

How the Groups Compare

It would be worth while, however, to examine the position of the groups with respect to each other. It is a sufficiently significant fact that the railroads show the biggest percentage of earnings with respect to their market price. The actual average of the 17 different issues listed in this table is 18.85%. In other words, these railroad issues, on the average, are earning 18.85% on their market valuation. No other group shows such a wide discrepancy between earnings and market position. For example, the average of industrials is 14.59% compared with 18.85% for the railroads and that of the public utilities is only 10.15%.

What does this mean? It means that of the various groups, earnings have been more nearly reflected in the market price of securities in the case of public utilities than in any other group and that the railroads as a whole have failed to discount to a very material extent the improvement in their earnings. The industrials lie somewhere between.

If preference had to be

(*Continued on page* 877)

Export Trade and the Investor

Industries That Are Affected by Fluctuations in Export Trade—Changes in Role of United States as Exporter

By WILLARD F. KEYES

THE export trade of the United States, taken as a whole, faces a peculiar dilemma. Its great strength in the past, and its importance to the rest of the world, has been its supply of foodstuffs and raw materials; its exports of finished products have been relatively small except during the war. At the present time, from the standpoint of America, the great need is to facilitate the exportation of manufactured products; from the standpoint of the rest of the world, the important thing is to finance our exports of raw materials. If this country succeeds in taking a major place place among the world's suppliers of finished goods, it will enormously accelerate its economic development. Should the reverse happen, and America be relegated to the position of a source of raw materials and foods, like Brazil, the result would tend to be that of definite economic degradation.

Our Excess Capacity

The position of American production is that it has an excess of productive capacity estimated at 13%, on the manufacturing side, while at the same time its production of raw materials and food products is tending downwards. A good example of the first situation is the increase in steel-making capacity which came into existence during the war, and now finds no steady employment in either the domestic or the foreign trade. On the other hand, our cotton crop is much smaller than before the war, and our production of oil faces exhaustion in the not far-distant future.

Fundamentally, therefore, the position of American industry is that it can supply practically all of the domestic needs of the country and is reaching out into new fields to find an outlet for its unused capacity. It becomes interesting, therefore, to see in which fields the export trade is of importance at the present time, and to what extent these are modified by changes in the export-trade position of the country.

In the subjoined figures the quantities have been reported, rather than the dollar values, of exports in order to eliminate the effects of price fluctuations. The ratio of exports to manufactures is given for the year 1919, because the pre-war figures would have been a poor guide on account of the new situation in productive capacity and the changes in the nature of the export business; later years would be misleading because of the extreme fluctuations of trade. In 1919, on the other hand, business started slow and worked up to a boom by the end of the year, without quite reaching the peak of activity, so that the year as a whole gives somewhat of a picture of American trade under post-war conditions which may be used as a basis for estimates.

The particular industries picked out for special consideration are not only those where the export trade plays a large rôle, but those which have a special interest for investors because they are represented by active securities. Agricultural products, for instance, form an important part of our export trade, but are not so represented, and much the same is true of textile half-products, lumber, dairy products, cement, and others.

The Export Position of Specific Industries

Considering the special industries, it is probable that our petroleum exports are due for a steady decline, as our own production becomes less and less adequate to our needs while production in other parts of the world increases and displaces American refined products. When the great resources of Russia, Roumania and Galicia in petroleum are developed to the same extent as those of the United States, for instance, with adequate equipment in the form of refineries, pipe-lines, and distributing stations, Europe will buy less and less of American lubricants, kerosene, and the like, nor will it buy so much American crude petroleum to distill in its own refineries. The same is true of the unexploited oil wealth of Venezuela and Colombia and the South American market.

From the standpoint of foreign trade, therefore, oil companies will tend to make less and less money in the export business and will be thrown back more and more on the home market. From all present indications this will be broad enough to absorb the production, but much of the refining capacity now employed in the European trade will join the 13% of the country's manufacturing capacity already unemployed in the course of time.

(*Continued on page 872*)

IMPORTANCE OF EXPORT TRADE TO SEVEN INDUSTRIES

	1921	1920	Average 1909-13	% Exports to Production, 1919
PETROLEUM (in millions of pounds):				
Lubricating oils	2,150	2,989	1,386	41.0
Petroleum residues	66	140	1,026	39.9
Illuminating oil	5,078	5,903	7,111	39.7
Naphthas	1,655	1,576	450	33.4
Fuel and gas oil	6,575	6,439	2,793	14.4
Gasoline	1,762	2,534	754	8.1
Crude petroleum	2,647	2,402	1,330	....
Totals	19,933	21,981	14,850	20.26
STEEL (in millions of pounds):				
Rails	721	1,331	887	26.4
Wire	222	718	430	23.3
Tin plates	241	507	100	17.8
Structural	665	1,105	516	15.1
Sheets and plates	1,330	2,759	822	14.7
Nails	76	245	148	13.6
Bars and rods	492	1,775	443	10.7
Pipes	882	791	482	7.5
Iron ore	986	2,565	1,886	....
Totals	5,624	11,794	5,714	15.50
AUTOMOBILES (number):				
Commercial	7,478	29,136	1,009	19.0
Passenger	30,950	142,508	25,880	8.1
Totals	38,428	171,644	26,889	13.6
COPPER (millions of pounds):				
Ingots, plates, etc	628	623	776	53.8
SHOES (thousands of pairs):	8,958	16,842	8,654	7.4
FERTILIZERS (millions of pounds):	2,006	3,172	2,779	13.6
SUGAR, refined (millions of pounds):	934	924	79	20.5

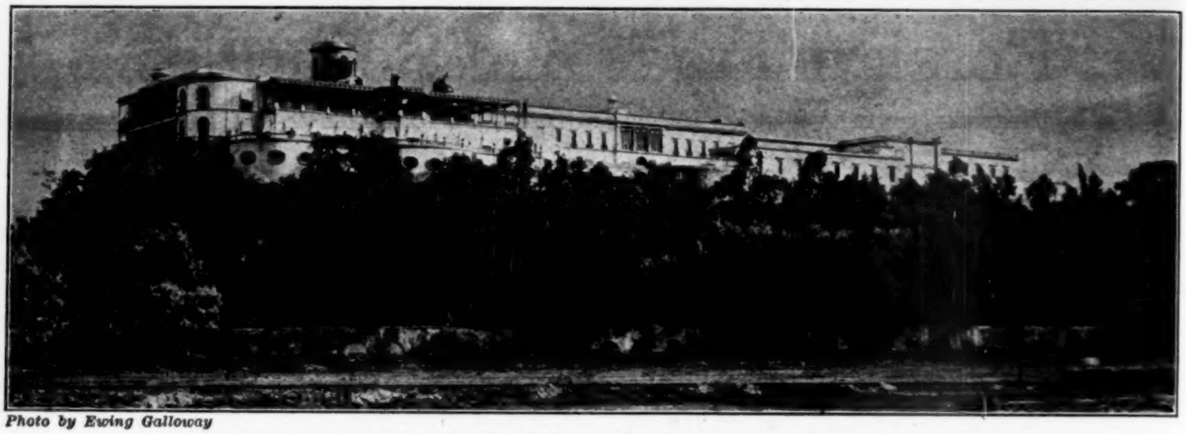


Photo by Ewing Galloway

Chapultepec Castle, the citadel of Mexico City and the White House of Mexico

Mexican Debt Near Settlement

Mexican Revenues Seem Sufficient to Cover Requirements of Agreement With International Committee of Bankers on Mexico—How Different Securities Are Affected

By MAX GOLDSTEIN

THE agreement as to the settlement of the Mexican debt reached on June 16 of this year between Finance Minister de la Huerta and the International Committee of Bankers on Mexico has recently been published by the American Section of the Committee, following its approval by President Obregon. The agreement has been concorded in by the Mexican Chamber of Deputies and is now a law of the land.

The agreement seems to be based on the principle that "half a loaf is better than none." It has three classes of problems to deal with: the restoration of current interest payments, the repayment of arrears of interest, and the extension of loans which mature before the execution of the agreement.

The Agreement

The Mexican Government agrees to set aside the total revenue of its tax on oil export, 10 per cent of the gross revenue of the National Railways of Mexico, and all of the net revenue, for the purpose of paying off these three classes of obligations under the conditions set forth in the adjoining table. It guarantees a minimum of 30,000,000 pesos (the peso being taken throughout this article at 50 cents American), so that if these three sources of income together do not equal 30,000,000 pesos, the difference will be raised from other sources of Governmental income.

This agreement as a whole provides for the period from 1923 to 1928, after which five year period all the old arrangements are to be restored in full force as specified in the various bond agreements, including full payment of interest, sinking-fund provisions, and the like. The guaranteed minimum of cash to be applied to interest payments rises by 5,000,000 pesos each year, so that at the expiration of the agreement the minimum will be 50,000,000 pesos.

Until this time the bondholders represented by the International Committee of Bankers of Mexico agree to waive their claims for cash payments, arrears, and the like in return for the payments to be made under the conditions specified in the agreement. In the case of the holders of the Mexican internal 3% issue of 1886, for example, this means that they must be content for five years with the payment of 25% of their interest in cash and receive scrip for the rest.

The scrip mentioned in the column of the adjoined table headed, "Provisions for Current Interest," is to be issued by the Mexican Government and distributed through the committee, for the full amount of the difference between the interest coupons and the cash payments. This scrip bears no interest for the first five years, but bears 3% interest thereafter, payable semi-annually, until its maturity in 1943.

Should the Mexican Government's receipts from the three sources specified in any year exceed the minimum for that year, the excess is to go toward the purchase and cancellation of this scrip.

The interest certificates of Class "A" and Class "B" which are to pay off the arrears of interest on all classes of bonds are to be issued in exchange for the interest coupons representing these arrears. The coupons are to be detached and deposited with some trustee satisfactory to the International Committee. These certificates, or receipts for back interest coupons, are to be redeemed within 40 years beginning 1928. Class "A" certificates are to be retired completely prior to Class "B." Assuming that these certificates are to be retired at par, it is estimated that all the Class "A" certificates will be retired within 20 years of the commencement of payments in 1923. It will be seen that under this arrangement the bondholders waive not only the payment in cash of arrears of interest, but agree to make no claim for interest on these arrears.

The National Railways of Mexico are to be turned over to private ownership, and owners of the bonds are to receive a guarantee stamped on their bonds to the effect that the Government agrees to assume the payment of principal, interest and sinking fund requirements subject to the agreements covering the five years from 1923 to 1928. The liens created by the mortgages on these bonds are not to be enforced unless the Government defaults in its obligations under the plan, in which case such liens may be enforced in favor of the railroads' bondholders. In other words, under this plan the holders of railroad bonds are asked to give up some of their specific rights in exchange for the general rights guaranteed under the plan to all bondholders.

Those obligations which will have already matured by the time the plan is expected to go into effect, including the United States of Mexico 6% Treasury Notes of 1913, and the two issues of National Railways of Mexico 6% notes which fell due in 1915 and in 1916, are to be extended for ten years. On the railroad notes secured by bonds of the National Railways of Mexico, 5% will be

paid for the first five years and 6% for the rest of the period till maturity; on the other issues 6% will be paid till the expiration of the extension.

It is provided that should the Mexican Government fail to carry out this agreement in full for the five-year period 1923-1928 the bondholders are to resume all their contractual rights. At the expiration of these five years these rights are automatically returned to them.

Behind all these legal provisions, it is evident, stands only as much guarantee as is provided by the actual earning power of the various sources of income specified in the agreement, and back of that the general taxing power of the Mexican Government.

Tax On Oil Exports

Analyzing them one by one, the tax on oil exports seems to have been very productive in recent months. Figures presented to the writer by a Mexican governmental source show that between September 1921 and May 1922 income from this source averaged about 6,500,000 pesos a month, or at the rate of 78,000,000 pesos a year. Another source close to the bankers, without quoting exact statistics, stated that in his opinion, with deductions for the prospective decline in oil production, the income from this source would be at least 30,000,000 pesos a year.

As to the earning figures of the National Railways of Mexico, the difficulty seems to be too much statistics, rather than too little, and those of rather doubtful quality. In any case, for what they are worth, we are told in the annual reports of the railway system that the gross revenue in 1921 was 107,000,000 pesos and the net 16,000,000, while in 1920 the gross was 73,000,000 and the net 26,000,000. These net figures, of course, are without deduction of interest or amortization, and in all probability with insufficient allowance for maintenance.

Confining our attention to the gross figures alone, which are probably less questionable than the net, we find that the 10% tax proposed by the agreement should net something like 10,000,000 pesos annually. Deducting this figure again from the net, which is no more than reasonable, we find an income from this third source for the current interest fund varying from 16 to 6 million pesos, though it must be again emphasized that very little reliance should be placed on these particular figures.

Ordinary Sources of Taxation

There remains the question of how much the Mexican Government could raise from its ordinary sources of taxation to cover the specified minima in case the income from these three sources should fall short. It must be recalled that ever since 1916 the Mexican Government has had no paper money outstanding, the entire currency of the country being either in silver or in gold. Being therefore free from the temptations of inflations, it has had to restrain its expenditures in such a way as to remain within the limits of its revenue, and this situation will necessarily continue until paper money is issued, at least, if not longer.

In 1919, while information is vague as to how much was actually collected, the Government spent 203,000,000 pesos. In 1920 the Government spent 212,000,000 pesos, but is known to have actually collected 251,000,000, leaving a sizeable surplus. The following year it spent 277,000,000 pesos out of its revenue of 280,000,000. For the current year, while figures of taxation are not available, it is known that the budget called for an expenditure of 383,000,000 pesos, and in view of the fiscal and currency situation mentioned above, it may be fairly presumed that the national income was somewhat above this figure.

Under the circumstances it is clear that the Mexican Government, assumed to be acting in perfect good faith, should not have any difficulty in making up whatever deficit may possibly exist between the three sources of income specifically set aside for the payment of current interest by the terms of the agreement and the minimum amounts for each year also named in the agreement.

The precise effect that the general situation which we have sketched above will have on the different securities will vary considerably, of course. An inspection of the attached table will show which ones benefit to the greatest extent from the provisions of the agreement, but the market to some extent has discounted this expected improvement, in some cases more than in others, by the steady rise in Mexican securities which has featured the foreign bond market for some months. In the case of the junior securities of the Mexican National Railways, however, which are now selling at a few dollars per share, a careful consideration of the plan will show that it is not a favorable factor for these stocks, but rather the contrary.

Inasmuch as the agreement provides that all the net revenue of the National Railways of Mexico is to go to pay current interest on the various bond issues, it is evident that there is no prospect of dividend payments on these stocks for at least the five years which the agreement is to run. Whether dividends will be resumed at the expiration of this period is another matter, depending largely on how much faith one puts into the statistics as to the earnings of the National Railways of Mexico quoted above, or in similar ones. In any case, seeing as there is certain to be no dividend declaration for another five years, and that the resumption of dividends is to say the least a matter of uncertainty, it would seem reasonable to get out of these securities and, if one is convinced of the eventual recovery of Mexican issues as a whole, to transfer the money so obtained into the bonds.

Whether the bonds are intrinsically

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TABLE I

Security	Amount in United States Dollars	Maturity	Provisions: Current Interest	Provisions: Arrears Interest	Provisions: Matured Notes
U. S. of Mexico 5s, consol. ext. gold loan of 1899	$48,635,000	....	50 to 100%	100%	....
Republic of Mexico 4s, ext. gold loan of 1910	50,949,000	....	cash	Class "A"	....
U. S. of Mexico 6s, treasury notes (series A, sterling)	29,100,000	1923	0 to 50% scrip	int. certif.	10-yr. ext. 6% int.
City of Mexico 5s, sterling, 1889	6,769,000	....	....	35%	....
Institution for Encouragement of Irrigation and Agriculture, 4½s, sinking fund, gold	25,000,000	Nov. 1, 1943	....	Class "A" 65%	....
U. S. of Mexico 4s, gold, 1904	37,037,000	....	....	Class "B"	....
Republic of Mexico consol. 3s, internal, 1886	21,151,000	....	25% cash 75% scrip	100%	....
U. S. of Mexico 5s, internal redeemable, 1894	46,455,000	....	25% cash 75% scrip	Class "B"	....
Nat'l Rys. of Mex. guar. gen. mtge. 4s, gold sinking fund.	50,748,575	Oct. 1, 1977	....		....
Vera Cruz & Pacific Co. 1st Mtge. 4½s	7,000,000	July 1, 1934	50-65%		....
Nat'l Rys. of Mex. P. L. 4½s, sinking fd. redeemable gold	84,804,115	July 1, 1957	Cash		....
National Railroad Co. of Mexico P. L. 4½s, gold	23,000,000	Oct. 1, 1926	35-50%		....
National Railroad Co. of Mexico 1st consol. mtge. 4s, gold	24,740,000	Oct. 1, 1951	Scrip	100%	....
Mexican International R. R. Co. 4½s, prior lien, sterling	5,850,000	Sept. 1, 1947	Scrip	Class	....
Mexican International R. R. Co. 1st consol. mtge. 4s, gold	4,206,500	Sept. 1, 1977	....	"B"	....
Pan-American R. R. Co. 1st mtge. 5s, gold	2,003,000	Jan. 1, 1934	....		....
Pan-American R. R. Co. gen. mtge. 5s, gold	1,484,000	Jan. 1, 1937	....		....
Mexican Central Ry. Co., Ltd., priority 5s	1,374,000	July 1, 1939	....		....
Mexican Central Ry Co., Ltd., equipment 5s, series 1, 2, 8, 10, 11, dated 1897-1907, assumed by Nat'l. Rys. Mex.	1,112,456	....	....		....
Nat'l Rys. Mexico 6% notes, secured by Gov't oblig.	33,662,131	....	100% cash	100% Class "A"	10-yr. ext. at 6%
Nat'l Rys. Mexico 6% notes, secured by own bonds	....	1915, 1916	50-65% cash	100%	10-yr. ext.
Tehuantepec Nat'l Ry. 5s and 4½s (series A and B)	2,000,000	June 30, 1953	35-50% scrip	Class "B"	....
Miscellaneous (State Loans Vera Cruz, Sinaloa, and Tamaulipas)	1,750,000	....	....	....	....

Money, Banking and Business

Clearing the Way to Prosperity

Month's Developments Remove Obstacles—Upward Movement in Production—Advance in Prices and Money Foreseen

SEVERAL factors of prime importance to the business situation have made themselves evident during the past month. First and foremost among them is the settlement of the coal and railway strikes. Scarcely less important in its way is the final disposal of the tariff bill. The defeat of the bonus must also be reckoned as a financial factor of great importance. In addition to these occurrences, the development of an unfavorable state of things in Europe temporarily checked, but nevertheless threatening, is to be taken into account as a factor which must be seriously reckoned with in the early future. **Generally speaking, it may be said that the situation today, from the domestic standpoint, is one in which the way is clearly paved for such improvement and advancement as the economic situation of the country will warrant.** Political difficulties have been in some measure adjusted. Labor controversies have for the time being been ended. All this creates a much simpler situation.

Volume of Production Growing

In these circumstances, it would naturally be expected that the volume of production might largely increase, and the indications are all in favor of such a development. Most indexes of manufactures are too far behind—that is to say, relate to conditions too far in arrears—to reflect the conditions of the present moment. Those which are nearest up to date manifestly point to the fact that the expansion of industry has been resumed. Reports concerning the activity of steel plants show that most of them are running at from 60 to 65% of capacity, or probably only about 5 to 10% below the top level which had been attained prior to the time when the strikes reached their most acute stage. Their percentage of activity is, moreover, on the increase, and they are now better supplied with fuel than in the past, besides being more thoroughly equipped with cars for the delivery of their products. Altogether, therefore, the indications of the steel industry are better than for a good while. This fact is reflected in the latest figure for unfilled orders, which amounts to 5,950,000 tons, a gain of about 173,000 tons or fully 100,000 tons better than the market had expected.

The figures for pig-iron production are not quite so good an index, because of the somewhat retarded condition of the industry, during the past few weeks prior to the closing of the strike. They still show some falling off from the high point, a decline, however, which is to be taken as indicating nothing more than a temporary setback, due to conditions as disturbed by the industrial conflict. Other production indexes, especially figures for the output of textiles and of copper, point to a strong upward swing of manufacturing, and this is attested by additional increases of wages in textiles and other industries which, added to those that had already been announced in the steel trade, must give a very large increase in buying power to labor.

Production and Credit

This vigor of production, accompanied by an evident growth of buying power all through the country, might be expected to make an increasing demand upon the resources of the banks. In fact, this is the case. Banks in the interior are already beginning to show the effects of commercial borrowing in their portfolios. Such a movement has not yet affected the Federal Reserve situation, the ratio of the system continuing stable around 80% with a portfolio of bills under $600,000,000, although this latter figure represents an increase of about 10% over previous conditions.

The increase in credit demand, however, is clearly on the way, and while some are inclined to regard it as seasonal, due to the fact that the crop moving season is approaching its height, it is remarkable that crop moving this year is being done with so small a use of credit.

For the first time in several seasons past, the Federal Reserve System has shown no inter-district borrowing designed for the relief of Southern and Western banks; and, if present indications hold good, it is not likely to make any such loans during this season. Nevertheless, the rates for money in the investment market have shown some tendency to harden. Time funds now range from 4@4½, with commercial paper at 4@4⅛ and call money varying from 3½ up to 5%. This is only a trifling increase over recent figures as a glance at the graph will show, and there are observers who are disposed to predict that, when seasonal demands are over, new low levels will be reached. The indications are rather away from any such forecasts, and would seem to point to a continuously higher figure. Nevertheless, the enormous lending power of the banking system, unused in great part, assures a continuously reasonable level for funds for a long time to come in the absence of some wholly unexpected development.

Direction of Investment Values

The fact that money is, however, feeling an upward tendency naturally exerts an important influence upon investment values. For some weeks past, it has been thought by keen observers that the bond market was at, or near the top, for the present movement, and a study of trends during the past few weeks again seems to confirm this belief. The latest figure for the index of corporation credit—4.49—shows that, to date, the downward movement in money value has continued; and hence the downward movement in the cost of corporation credit, which, of course, is less expensive to the borrower as the value of bonds quoted in the market increases. It is doubtless true that at present the corporate borrower can get his accommodation about as favorably as at any time for a number of years past, yet the indications seem to point to the belief that the upward tendency of money will, from now on, be likely to make the conditions of this type of borrowing perhaps slightly less favorable from a financial standpoint. Offsetting this tendency, is the fact that business conditions are becoming more definitely established, and that the industrial, as distinct from the purely financial, aspect of corporate borrowing is likely to become more and more favorable as general business improves. Yet it would seem to be true that the current values of bonds are at or near their peak, having doubtless considerably anticipated the movement of stock prices.

Question of Commodity Prices

Closely connected with this question of money rates and investment values, is, of course, the question of commodity prices. If the latter should continue to move up fairly steadily, as they have with some intermissions since the beginning of the year, it might reasonably be expected that two sets of influences would be put at work—those which require a larger volume of bank credit in order to "carry" goods and industrial operations at rising prices, and those which operate upon the capitalized value of fixed investments by making their money yield less in buying power.

A rise in prices, in short, if continued much further, might be expected to make

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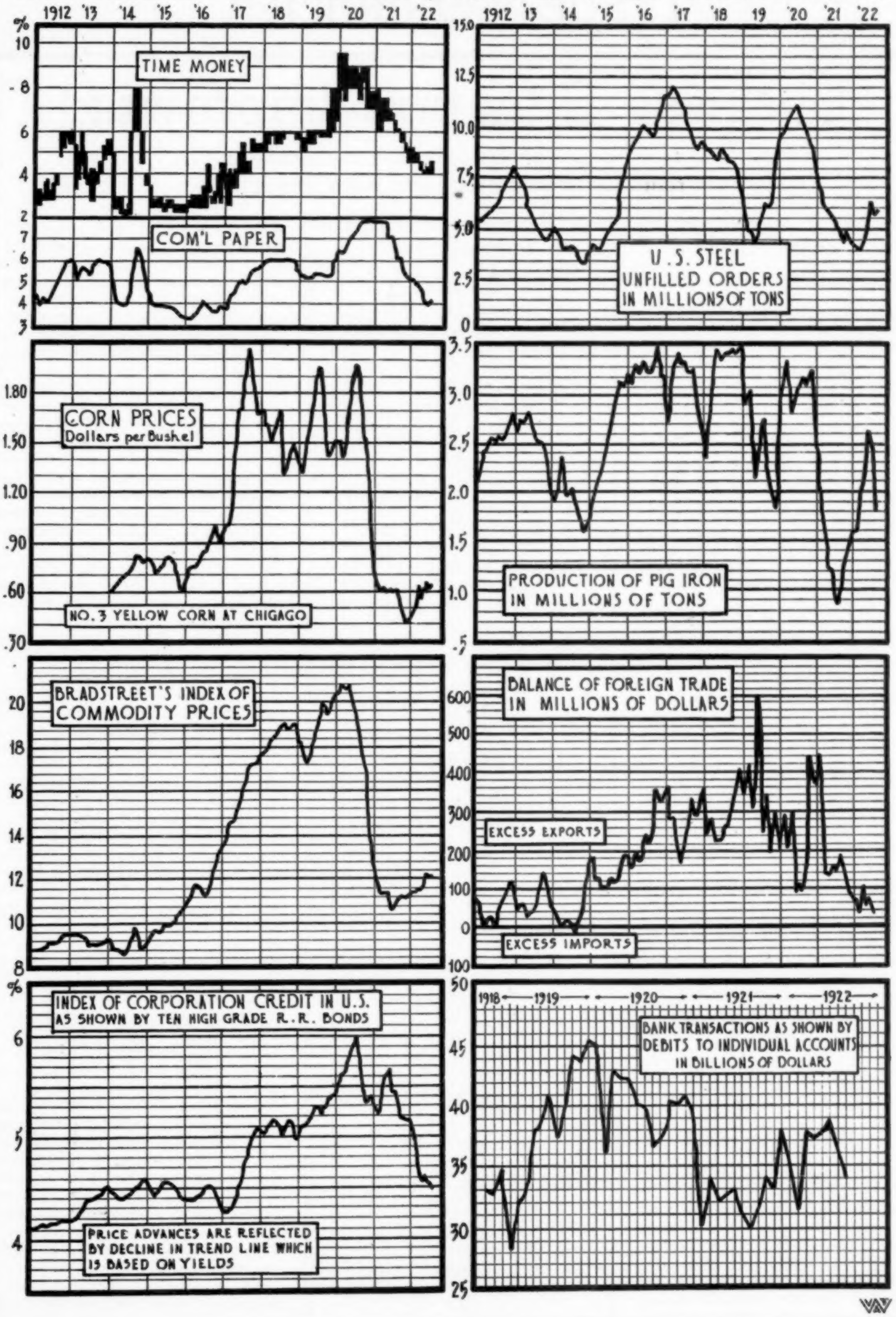
THE TREND OF MONEY, PRICES AND PRODVCTION



Trade Tendencies

Business Situation Improving

Ending of Strikes Leads to Expansion of Demand—Seasonal Irregularities

STEEL

Conditions Improving

IMPROVEMENT in the fuel situation has created a more cheerful sentiment in the iron and steel industry, a feeling that has a sound basis in the fact of recovery of output from the low point at the end of last month. The number of blast furnaces resuming operations is steadily increasing and steel works are running at better than 60% of capacity compared with approximately 50% at the beginning of the month. While the prospect for a gradual recovery in output and for increasing deliveries against commitments has stabilized the market to some extent by restoring the confidence of buyers, the situation is by no means entirely clarified. Efforts of the steel mills to increase production and speed up deliveries will, to a large extent, be restricted by ability of the railroads to furnish cars for the movement of both coal and finished products. The transportation problem thus makes it difficult to estimate the probable rate and extent of recovery in operations, but it is at least certain that the worst has been seen.

The trend of prices still appears to be upward but advances have not been uniform due to the various influences affecting the present market. Scarcity of pig iron following the labor difficulties has resulted in buying for immediate requirements only, consumers being hopeful of some easing in prices as production is increased. Considerable quantities of foreign iron have entered the domestic market, attracted by the high prices prevailing, the supply of this iron having a tendency to hold down prices. On the whole, since it is probable that the present market is more or less artificial, the ultimate trend of prices must depend upon more settled conditions, and while some evidence of a tendency to reach a level has been noted, the point of ultimate stability is yet to be determined.

Demand for finished steel products has, of course, been affected for some time by the labor troubles and the business derangements which have followed them. In view of the restricted buying that has resulted, it is probable that there is a considerable amount of pent-up demand which will be let loose so soon as normal conditions are restored. The seasonal decline in sales of passenger cars will undoubtedly bring a lessened demand for steel from motor vehicle manufacturers who have been consuming approximately 10% of the country's output. On the other hand, buying for account of the railroads has begun to expand again, influenced by the improved aspect of the shopmen's strike. Orders for cars and locomotives are heavy and demand for rails is growing. Announcement by the Steel Corporation of an advance from $40 to $43 per ton on steel rails should result in a very material increase in orders for this product prior to the date on which the new price becomes effective.

While the immediate course of production, demand and prices in the steel industry is made uncertain by the multiplicity of influences now affecting it, there is no reason to believe that the future will not bring a period of reasonably satisfactory earnings and profits.

COMMODITIES

(See Footnote for Grades Used and Unit of Measure)

	1922 High	1922 Low	Last*
Steel (1)	$40.00	$28.00	$40.00
Pig Iron (2)	31.25	17.75	31.25
Copper (3)	0.14	0.12⅝	0.14
Petroleum (4)	3.50	3.00	3.00
Coal (5)	5.75	1.75	4.63
Cotton (6)	0.22⅞	0.17	0.21½
Wheat (7)	1.46	1.01¼	1.01⅛
Corn (8)	0.78¼	0.47	0.62½
Hogs (9)	0.10⅝	0.08	0.09
Steers (10)	0.09½	0.08½	0.09
Coffee (11)	0.11⅛	0.09¼	0.10¼
Rubber (12)	0.20½	0.13¾	0.14⅜
Wool (13)	0.57	0.45	0.54
Tobacco (14)	0.20	0.18	0.18
Sugar (15)	0.05⅝	0.03½	0.04⅝
Sugar (16)	0.07	0.04¾	0.06¼
Paper (17)	0.04	0.03½	0.04

* Sept. 16.

(1) Open Hearth billets, $ per ton; (2) Basic Valley, $ per ton; (3) Electrolytic, c. per pound; (4) Pennsylvania, $ per barrel; (5) Pool No. 11, $ per ton; (6) Spot, New York, c. per pound; (7) No. 2 Red, Chicago, $ per bushel; (8) No. 3 Yellow, Chicago, $ per bushel; (9) Light, Chicago, c. per lb.; (10) Top, Heavies, Chicago, c. per lb.; (11) Rio, No. 7, Spot, c. per lb.; (12) First Latex crepe, c. per lb.; (13) Ohio, Delaine, unwashed, c. per lb.; (14) Medium Burleigh, Kentucky, c. per lb.; (15) Raw Cubas 96° Full Duty, c. per lb.; (16) Refined, c. per lb.; (17) Newsprint per carload roll, c. per lb.

THE TREND

STEEL—Conditions improving as fuel situation eases. Prices strong and tending upward but irregularity of movement and uncertainty of future course restrains active buying.

SUGAR—Market reactionary. Refined sugar easing off as demand slackens. Situation in raws governed by action of refined. Immediate trend uncertain, but fundamental position sound.

CHEMICALS — Situation improving. Betterment in demand reflected in firm to rising prices. Sales expected to increase in coming months.

TEXTILES—Wage advances in New England becoming general. Increased production costs causing increased prices for finished goods. Demand broadening.

LEATHER—Renewed demand for hides brings further advances in quotations. Stocks reduced. Leather quiet and firm. Industry recovering slowly.

SUMMARY—The major obstacles to business activity having been removed, the outlook for Fall and Winter is encouraging to a resumption of the upswing. Conditions are rather spotty as business revival has gone further in some sections than in others and at the same time, some industries have benefited proportionately more from industrial recovery, a tendency that seems likely to continue. Although retail interests are still operating cautiously, broadening demand for goods should result in greater aggressiveness in distributive channels.

COPPER

In Strong Position

Copper prices have held around the 14-cent level with remarkable steadiness for several weeks, despite the fact that demand has been adversely affected by conditions growing out of the coal and railroad strikes. Deliveries of approximately 170,000,000 pounds of the red metal for domestic and export consumption during August were less than those for either of the two preceding months, the total for July being estimated at 172,000,000 pounds and for June 176,000,000 pounds. This falling off is, however, attributed more to unsettled conditions occasioned by the strikes than to a decline in actual industrial requirements and it is reasonable to infer that potential demand has been increased by the lessened buying of recent weeks.

The statistical position was further strengthened in August since production remained well below demand. Stocks of refined copper were estimated at 300,000,000 pounds as of September 1, a reduction of 30,000,000 from the figures reported at the close of August, and of these stocks, 170,000,000 pounds are held by the Copper Export Association. Mining operations are not likely to be resumed in full for some time inasmuch as the problem of securing an adequate sup-

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Have Bonds Reached the Top?

The Present Position of the Leading Group of Bonds and What They May Be Expected to Do

By H. I. PERRINE

THOSE who predicted a livelier bond market after the vacation season was ended have had no reason to feel disappointed. Since September set in there has been an abundance of interesting developments and the price movement has been all that could have been anticipated. Up to the present writing the price average of representative issues has not topped that of the high point of the year made in August, but indications seem to point to a higher price level. No one who has been observing the trend of events in the past two or three weeks can have any reasonable doubt as to the course of bond values over the next few months. Only one conclusion can be drawn from the facts at hand.

Let us enumerate a few of the happenings. To begin with, we have had a convincing demonstration of the market's underlying strength during the uncertain period caused by the strike situation. All through that period, bonds not only held their gains but actually made new highs. The market continued active and trading broadened out, embracing some of the issues that had formerly been backward, as well as the usual favorites. This increasing activity and breadth of trading covering a period when many grave doubts were expressed as to the future was an indication in itself that better things were in store for the bond market. But developments since then have been still more convincing.

Stock Financing

The recent action of the Chesapeake & Ohio in authorizing an issue of 6½% preferred stock is one of the straws indicating which way the wind is blowing. A little more than a year ago, it would have been difficult to float a railroad bond issue unless it carried a high rate of interest. Today a railroad, not of the highest credit, has enough confidence in the investment situation to feel that a preferred stock issue can be successfully floated among investors. The action taken by Chesapeake has been one of the most important recent developments in the realm of railroad finance. Coming on top of this Chesapeake announcement, we had the successful flotation of a number of large stock issues, indicating that investment conditions have improved to such an extent that the market is in a position to absorb offerings tinged more or less with the speculative element.

SINCE June, 1921, the bond market has recovered fully 75% of the ground lost since 1916. It is therefore evident that opportunities in bonds are not so numerous nor so attractive as in the early stages of the rise. We believe, however, that for the immediate present, at least, the stimulus of low money rates and favorable business conditions will cause a further advance in the bond list. Under such conditions, the discriminatory policy which we have always followed in the selection of bonds should and will receive greater emphasis in future. Therefore, when making bond recommendations we shall state definitely the class of investor to which these issues are best adapted. Thus we aim to make this department increasingly practical and valuable.

The saying has often been quoted in bond quarters that "the Government sets the rate." If this is true, then the action of the Treasury Department in floating at 3¾% a twelve months' issue of $200,000,000 certificates of indebtedness must be taken as a forecast of continuation of easy money conditions and consequently an ample supply of funds for investment. The trend of security values and the course of money rates are so closely interwoven that this latest piece of Government financing must be regarded as particularly significant as to what the future may have in store in the way of higher bond prices.

Another sidelight on the money question has been given by the municipal bond market. An unusually large amount of municipal issues has been offered at increasingly lower rates, the climax being reached by a City of Buffalo 4¼% offering, on a basis to yield from 3.85% to 3.80%, a new high record price on this movement for issues of this type. Similarly we have had another indication of the condition of the investment market, in the offering by Swift & Co., of $50,000,000 5% notes on a 5.40% basis to replace a $65,000,000 7% note issue put out during a period of high money.

The Position of High-Grade Bonds

Now, while it is true that underlying factors are still favorable to bonds, as a group, and that they are likely to continue their advance in the near future, the question has to be determined as to which classes of bonds show the best opportunities at this time.

Probably, the least attractive of all the bond groups from the viewpoint of prospective profit are the gilt-edge bonds which have sold up to a point where they no longer yield an attractive return. This does not mean that gilt-edge bonds should now be sold. Among those who read this article are many who have purchased these bonds at substantially lower prices where they were able to secure a high return. It is doubtful that such a high return on equally good bonds can be had for many years, and therefore the advice is given to such investors that they hold. *Prospective* purchasers of these bonds, however, unless they are satisfied to procure a yield of from 4½-4¾% on their money, should consider for investment other issues such as medium-grade bonds and high-grade preferred stocks, all of which yield a substantially higher return than that obtainable at the present time on the best bonds.

A formula for the present situation in bonds could be put this way: Gilt-edge

REPRESENTATIVE HIGH-YIELD RAILROAD BONDS

	Maturity	Price About	Yield
St. Louis-San Francisco Adj. 6s	1955	86	7.10%
St. Louis Southwestern Cons. 4s	1932	80	6.75
Western Maryland 1st 4s	1952	68¾	6.35
Rock Island, Arkansas & Louisiana 1st 4½s	1934	85½	6.25
Southern Railway Dev. & Gen. 6½s	1956	104	6.20
Missouri Pacific General 4s	1975	69	5.90

bonds are no longer attractive from the viewpoint of profit-possibilities, whereas second-grade and speculative issues can still be bought in the hope that such purchases will result satisfactorily in the period immediately ahead.

Discrimination Necessary

In view of the prolonged advance that the bond market has had during the past year and a half, investors are now inclined to exercise a little more care in their selection of securities. When the rise first started all bonds were selling at such ridiculously low levels that purchases could be made all through the list with the practical certainty that buyers would reap a rich reward. The income return on bonds of all types was then sufficiently high to attract all classes of purchasers, and there was little need to exercise any great amount of caution. With even the highest grade bonds selling some thirty points below their pre-war levels, with yields on such issues ranging all the way from 6½ to 7½%, and with low-grade bonds selling on a basis to yield from 7½ to 10%, the market was full of bargains.

Now, however, all this has been changed. Money rates have come down, bond prices generally have advanced from 15 to 20 points, and the yields obtainable on bonds of the better class no longer appeal to the average investor. This is not surprising, in view of the fact that the income return on the legal issues has now been reduced to around 4½-4¾%, and on the more speculative issues to about 6%. Little wonder then that conservative security buyers are hesitant about making commitments at this time.

This situation, however, gives an opportunity once more to lay stress on a point that has been frequently brought out in the past few weeks. Reference is to the probability that the best bond bargains of the future are likely to be found in the list of second-grade rail issues. A comparison of the price range of various groups of bonds will show that all issues have not advanced in the same proportion. Dividing representative bond issues roughly into two classes, speculative and investment, we find that the latter have been in much greater demand than the former. **This demand has carried prices of the investment group up to a point that makes a further rise very improbable.** Prices, probably, will hold around the present level for some time, but it cannot be expected that yields on such issues will go much lower, since they are already on a basis that is no longer attractive to investors. Such funds as are available for investment, therefore, are practically certain to find their way into the speculative bond market and to make their influence felt.

Demand for Speculative Bonds

During recent bond market sessions there has been an unusual demand for securities of a more speculative type, and there has been enormous trading in the same. Witness the activity in such issues as the Erie Convertibles, the Frisco Adjustments and Incomes, the Seaboard Consolidateds, and the Baltimore & Ohio Convertibles. The activity in bonds of this type would seem to indicate that investors are beginning to realize the opportunities that are available in this part of the list.

Many of these high-grade issues are, of course, speculative to a certain degree, but underlying conditions have changed to such an extent that they all have good possibilities from a market standpoint and investors are quick to realive this point. Some buyers have, of course, hesitated to place their funds in issues of this kind, since the Chicago and Alton receivership, but that event should have no bearing on the situation. The Chicago and Alton is an isolated case. It had been known for a long time that the road was in bad shape and that a readjustment was imperative. Announcement of the news, therefore, was not looked upon as a serious matter by those who were familiar with the situation. It should not be the means of frightening investors to the extent that they lose the advantage of the many opportunities available in the lower-grade railroad issues.

In the accompanying table will be found a list of representative high yield railroad

(Continued on page 869)

What Yields Indicate in Bonds

An excellent test of a bond's value is the yield obtainable at any given time. The reason for this is that bonds, as a group, are subject to fundamental influences and that these influences are reflected in the price of a bond. The character and standing of a bond, therefore, as compared with the character and standing of any other bond may be told from the yield it affords. In this light, therefore, the reason for the wide discrepancy between the price of the various bonds may be better understood.

In general this formula holds good as relating to bonds: **The higher the standing of a bond the lower is its yield.** Liberty bonds, for example, which are of the highest type yield approximately 4% which is a very low rate as compared with that obtainable on other securities but in the eyes of the investing world the high price of Liberties and consequently their low yield is warranted by their undisputed high standing. There are, of course, instances of bonds of high investment value selling on a comparatively high yield basis as compared with the rest of their group but they are, on the whole, exceptional opportunities and always should be taken advantage of when they occur.

Just as bonds of the highest standing offer the lowest yield, bonds of lower standing offer a correspondingly higher yield and, in fact, as bonds progress away from those of high standing, their price becomes lower and yields consequently higher.

There are bonds obtainable which offer 10% and over. These bonds without exception are speculative or they would not offer such high yields. The higher the yield, the more reason to investigate the bond before purchasing. It is for this reason that it is exceedingly important for all prospective purchases of this class of security to know what the yield of the intended purchase is.

In classifying these bonds, therefore, as in the Bond Buyer's Guide, found on another page of this department, the yield, which, practically speaking, is the result of the consensus of opinion regarding the value of the bond in question, should be taken into consideration. As in the accompanying table, it will be seen that the highest-grade bonds yield at the present time an average of only 4½%: in the next category come the middle-grade bonds yielding, on the average, about 6½% and last come the speculative issues, in some cases yielding well over 7%.

Obviously then bonds are not equally valuable. Some are considered to be of greater worth than others. This worth will be indicated by the yield obtainable on a bond at any given time. Investors should note that where inordinately high yields are indicated there is a certain amount of danger and that the higher the yield the greater the danger is likely to be. On the contrary, the safest bonds are the lowest-yielding bonds.

Therefore, where the individual desires safety above all other considerations, he should limit himself to the highest-grade bonds. On the other hand, when the individual is in a financial position to warrant taking a certain amount of risk, better profit opportunities will be found as a rule in the middle-grade and investment bonds. The investor, of course, is the one to decide the question as to the type of bond for himself, but he should take into consideration the significance of bond yields and govern himself in accordance with his financial position.

	Current Yield (%)
THESE BONDS ARE HIGH-GRADE	
N. Y. Central General Mtg. 3½s, 1997	4.37
United States Steel 5s, 1963	4.80
New York Telephone 4½s, 1939	4.90
THESE BONDS ARE MIDDLE-GRADE	
Chicago & E. Ill. Gen. 5s, 1951	6.12
International Merc. Marine 6s, 1941	6.62
South Porto Rico Sugar 7s, 1941	6.75
THESE BONDS ARE SPECULATIVE	
Erie Gen. Lien 4s, 1990	7.40
American Writing Paper 6s, 1938	7.40
Int. Rapid Transit 5s, 1966	7.00

Convertible Bonds as Investments

Elementary Precautions to Be Taken Before Buying Them—Three Interesting Examples

By W. M. GEOFFREY

IN the series of articles of which this is the fourth, government bonds, mortgage bonds and equipment trust bonds have been discussed and some of their investment merits or defects pointed out. In view of the widespread interest in convertible bonds ,it seems timely to make this class the subject of next analysis.

Convertible bonds, in brief, are bonds which may be exchanged by the holder for other securities of the issuing corporation. The basis on which the exchange may be made will vary with cases, but it is always specifically set forth in the mortgage instrument. The security *into* which conversion is permissable is also specified, but most generally is the capital stock of the issuing corporation.

In the last twenty-five years, the practice of issuing bonds with the convertible feature attached has been increasingly popular. Particularly among the railroads this means of transforming fixed charges into contingent charges, as the process is defined by one very able writer, has had a universal appeal; and in not a few cases it has proven an ideal form of funding.

Definite Appeals

From the standpoint of the issuing corporation, the convertible bond idea has had numerous definite appeals. First, such issues, by reason of their bond characteristics, and assuming a reasonably sound position for the issuing corporation, are assured of a ready market in times when re-financing could not be accomplished except at great cost through the sale of stock. Secondly, by reason of the convertible feature, convertible bonds offer a means of automatically reducing a corporation's fixed charges. Thus, a $5,000,000 bond issue bearing 7% interest at the time of issuance will mean an addition at the rate of $350,000 annually in the fixed charges of the issuing corporation. Make that bond issue *convertible,* however, and have the conversion privilege one which can reasonably be expected to prove attractive, and there will be a constant reduction in these increased fixed charges, with the outlook favoring its being completely eradicated in due course.

As added favorable features from the standpoint of the issuing corporation there should be included the more or less general fact that convertible bonds are callable, although at a premium, prior to maturity, and, finally, that they may represent junior liens owing to their popularity as investments.

From the Investor's Standpoint

The outstanding features of the average convertible bond from the investor's standpoint cannot be dismissed so glibly. In fact, not a few authorities on investments agree that the essential characteristics of a convertible bond make it a security which is appropriate to the investment programs only of those investors who are fully acquainted with the class, as a general type, and with the security as an individual case.

One of the first facts for the prospective investor to consider before purchasing any convertible bond is that, in practically every case, the convertible feature is introduced by the issuing corporation in order to equip the security with a compensating attraction to make up for the fact of its being either a short-term issue, or a junior lien, or callable, or in some other respect something less than an ideal investment medium. In a great number of cases, the compensation is there in all fullness; that is, the convertible feature will fully compensate for any deficiency in other respects; in not a few cases, it will prove more than a compensation—may even prove immensely valuable. **Nevertheless, it is a compensation, should be regarded as such and might therefore well be made the excuse for a more careful study of the finances and prospects of the issuing corporation than would be deemed necessary in the case of non-convertible securities.**

Terms of Conversion

Of as great importance to the intending investor are the terms of conversion. That is, however reliable the fortunes of the issuing corporation may seem, the mere addition of the convertible privilege to an issue of its bonds will not necessarily give them an added value. Thus, a railroad company might issue a bond convertible at par into its stock at a given price, say 125. Were the stock an issue with no prospects of selling at the convertible price, namely, 125, it is obvious that the convertible privilege would be valueless.

While the foregoing precautions are worth the consideration of all prospective investors, and especially those who have not made a study of the convertible bond field, it might be pointed out that they are purely elementary and that in no respect whatsoever do they bring into question the investment aspects of the convertible bond as a class. Indeed, it would not be going too far to state that, with these elementary precautions observed, the convertible bond field may be found the one most productive of principal profit in the whole bond market. The reason is obvious: To own a bond in a prosperous corporation is to have an investment which will retain its investment status (price) while the stock is still below the conversion point. You possess a security on which a good income is comparatively sure to accrue even in dull times. When business picks up, your bond takes on important added attractions. Besides continuing to be a good investment in itself, it becomes a *call* on the stock at a price which the stock will often exceed. Thus, the holder receives bond income and reasonably high bond security in dull times, and an opportunity for principal enhancement in good times quite as great as he would have in the case of a common stock.

Some Examples

As a means of giving this article something more than academic value, a small group of convertible bonds has been compiled and is shown herewith. The writer believes that the three issues selected offer as a group an exceptionally well secured investment; and they have the virtue of being convertible into stock, on various terms, which gives them speculative attractions.

Of the three, perhaps the most interesting is the Magma Copper issue. While, as a single investment security, it might not be warrantable to base a commitment in the low-yielding Magma bond, nevertheless the issue can fairly be added to an investment program.

The two railroad bonds are, obviously, the higher-grade investments of the group. Considering the upward trend in railroad affairs and the strong position of New York Central and Chesapeake & Ohio in particular, the likelihood that these two stocks will reach a price at which conversion will be profitable does not seem remote. Furthermore, the bonds offer a good yield and substantial safety as investments in themselves.

EXAMPLES OF CONVERTIBLE BONDS

	Maturity	Denom.	Price	Yield	Callable At	Conversion Privilege	Current Price of Stock
N. Y. Central conv. deb. 6s..........	1935	100	107¼	5.24%	110	Into capital stock at 105	99
Ches. & Ohio conv. 5s..............	1946	500	97¾	5.15%	105	Into capital stock (com.) at 80	75
Magma Copper conv. deb. 7s........	1932	500	122	4.32%	105	30 shares stock for each $1,000 bond	35

Inquiries on New Security Offerings

Inquiries on Other Securities Will Be Found in Their Respective Departments

EASTERN CUBA SUGAR CORPORATION 7½s
Speculative Bond

Please advise what you think of the Eastern Cuba Sugar Corporation 15-year 7½% bonds being offered at par. I notice they are convertible into Cuba Cane Sugar common stock at $20 per share. Do you believe this conversion privilege will be valuable?

The Eastern Cuba Cane Sugar Corporation is a subsidiary of the Cuba Cane Sugar Corporation, and its $10,000,000 15-year 7½% Closed Mortgage Sinking Fund Gold Bonds are guaranteed as to principal, interest and sinking fund by the latter company. The proceeds of the sale of these bonds are to be used for the purpose of paying off all the floating debt of Cuba Cane Sugar Corporation and its subsidiaries except $7,500,000 which has been extended at 6% to Oct. 1, 1923. These bonds are subject to approximately $1,260,000 prior liens and a first mortgage on the property of the Eastern Cuba Sugar Corp., known as the Violetta Mill, consisting of approximately 60,000 acres of land, railway trackage and rolling stock. The Violetta Mill has a capacity of 500,000 bags of sugar per year. Net assets of the company, after giving effect to the present financing and after deduction of the above prior liens, amounted to over $15,000,000, as of July 31st last. Fixed interest charges, including interest on the present issue of bonds, amount to $3,125,511 per year, and average earnings for the five years ending in 1920 amounted to $13,481,729, or four times the interest requirements, but in 1921 there was a large deficit. We do not consider that the conversion feature adds any particular attractiveness as the stock of the Cuba Cane Sugar Corporation would have to have a very substantial advance in order to make such conversion profitable. We regard this as a speculative issue and not suitable for conservative investment needs.

SINCLAIR PIPE LINE 5s
A High Grade Bond

How do you rate Sinclair Pipe Line Co. 5% bonds?—H. M., Bloomington, Ill.

Sinclair Pipe Line $25,000,000 5% gold bonds, due 1942, constitute the sole funded debt of the company and the trust agreement provides that the company will not create any mortgage or pledge any of its assets as security for indebtedness unless granting equal security to these bonds, and there are other important protective provisions. The company's system of lines extend from the Mexia field of Texas through the states of Texas, Oklahoma, Kansas, Missouri and Illinois to East Chicago, Ind. The proceeds of this issue will be used to finance the doubling of the present capacity of the main trunk line to the Chicago district, and building important extensions southeast to Houston, Texas, and northwest to the Wyoming field. The Standard Oil of Indiana has contracted to purchase for 16 millions in cash one-half of the outstanding stock of this company. On this price basis the stock represents an equity of more than 32 millions over and above these bonds. For the three years and seven months ended July 31, 1922, net income averaged over four times annual interest requirements on this issue. We regard this as a high-grade bond and attractive at the offered price of 95 to yield 5.4%.

CONSOLIDATED GAS OF BALTIMORE 5½s
Conservative Investment

I am offered bonds of the Consolidated Gas Co. of Baltimore and would appreciate an opinion on same. They are the 1st refunding 5½% bonds, Series E.—J. B. H., Salisbury, Md.

Consolidated Gas, Electric Light & Power Co. of Baltimore $5,000,000 Series E 5½% 1st refunding bonds due 1952 are secured equally with $11,263,000 6% Series A and $9,000,000 7% Series C bonds by mortgage on all properties of the company. Bonds are reserved to refund all underlying issues. Net earnings for the 12 months ended July 31, 1922, were 2½ times total fixed charges, including interest on this issue. This company has for a long period of years shown a steady earning power and these bonds can be regarded as a conservative investment. At the offered price of 99½ the yield is slightly over 5½%, which is attractive for a long-term bond of this calibre.

NEBRASKA POWER 6s
Another Bond Suggested

I am interested in Nebraska Power Co. 6% bonds offered at 90½ to yield 6.6% as this is a liberal yield as bonds are selling nowadays. What do you think of them? Is there anything better you can suggest?—G. K. W., White Plains, N. Y.

Nebraska Power Co. $3,500,000 debenture 6s Series A are a direct obligation of the company but not secured by mortgage. Earnings for the year ended July 31, 1922, were 2.17 times the annual interest requirements, including this issue. Company supplies commercial and municipal electric power and light service in Omaha and suburban towns and through a subsidiary in Council Bluffs, Ia. Population served is about 240,000. The operation of the property is under the supervision of the Electric Bond and Share Co., which assures it good management. A better bond, in our opinion, is Sinclair Consolidated 1st lien and collateral 7s, due 1938, selling on the New York Stock Exchange at 101 to yield 6.9%. This bond is practically a first mortgage on the Sinclair properties in the United States with assets valued at five times the amount of the issue. In purchasing this you would be getting a higher return and in our opinion greater security than you would by purchasing the Nebraska Power debentures.

SWIFT & CO. 5s
High Grade Industrial Bond

Some time ago you furnished me at my request a list of high grade industrial bonds which I purchased. I now have room for another bond of this kind and am considering the recent Swift & Co. issue of 5% gold notes. Are they suitable for me?—L. F. U., Easton, Pa.

Swift & Co. $50,000,000 5% Gold Notes, due 1932, while not secured by mortgage are a direct obligation of one of the strongest industrial companies in the country. For the past five years ended November 5, 1921, average earnings were more than six times annual interest requirements, including this issue. The Trust Indenture provides that current assets be maintained at an amount equal to at least one and one-half times current liabilities, including these notes. Sales of the company's products have increased from 250 millions in 1909 to 800 millions in 1921. This is a high grade industrial bond and we do not believe you would make any mistake in making a purchase. At offered price of 97 yield is 5.4%.

KANSAS CITY POWER & LIGHT 5s
Yielding 5.47%

Would appreciate your opinion on the merits as an investment of the Kansas City Power & Light Co. 5% bonds recently offered at 93 and interest.—M. F. J., Boston, Mass.

We regard the Kansas City Power & Light Co.'s $21,000,000 1st Mortgage 5% Gold Bonds, Series A, as an attractive investment at this price. They are secured by a first mortgage on all the company's fixed property, valuation of which, as fixed by the Public Service Commission of Missouri, is approximately $28,500,000. In addition, the company has 7,494 acres of coal rights, a new power house and other new property now under construction, valuation of which is estimated at over $6,000,000, bringing the total value of the properties securing these bonds to approximately $34,500,000, or more than 1½ times the total bond issue. After the present financing is completed these bonds will represent the company's only funded indebtedness, and the sale of this issue will result in an estimated saving in interest and mortgage charges of approximately $350,000 per annum. Earnings for the 12 months ended July 31, 1922, were $7,306,654 gross, and net after deducting depreciation was $2,943,025, as compared with annual interest requirements on the present issue of bonds of $1,050,000. The Kansas City Power & Light Co. controls the electric light and power business in Kansas City, and serves a total population of approximately 575,000.

BOND MARKET HOLDS FIRM

Few Important Changes in Either Direction in Bonds

THOUGH the stock market had decisive moves in both directions during the past two weeks, bonds, as a group, were comparatively sluggish though the undertone was strong. During the earlier part of the fortnight foreign issues weakened under pressure of adverse news from abroad. Later they recovered when it became apparent that there was little danger of another European war. Nevertheless, it was a good instance of the speculative position of even the better grade foreign bonds under present world conditions—a strong reminder to American investors that with perhaps a few exceptions among the very best foreign issues, there are, on the whole, better opportunities at home.

The speculative railroad bonds, which for a time were weak, recovered smartly, with several exceptions. M. K. & T. adjustment 5s were strong, likewise the St. Paul and 'Frisco issues. Erie gen. 4s, on the other hand, were weak in sympathy with the stock issues.

Gilt-edge issues held up well though activity was not marked. This class of bonds has rather lost favor with the average investor on account of their small yields. Among the middle-grade railroad issues C. & O. convertible 5s were strong. Among public utility issues, Brooklyn Union Gas 7s were conspicuous with a gain of several points. Otherwise public utility issues were comparatively inactive.

The industrial list was irregular with Cerro de Pasco convertible 8s gaining several points, whereas Magma Copper convertible 7s lost a point.

Money rates, on the whole, were firm though rates were not increased. The Treasury announcement of a $200,000,000 3¾% note issue had a favorable effect. Liberty issues were also firmer owing to announcement of the President's veto of the "bonus" measure.

General Outlook

Speaking generally, confidence in the immediate course of the bond market seems well sustained. Some classes of bonds, such as the gilt-edge issues, seem stabilized at these levels with little likelihood of advancing much further. Other classes, such as the middle-grade and speculative issues, indicate greater public participation with the best opportunities apparently in these classes of bonds.

On the whole, long-term non-callable bonds with a low coupon rate are preferable to high coupon rate bonds callable at early dates and investors who are interested in investment for long periods should consider the former class of bonds almost exclusively.

This should also be considered a time for overhauling one's bond list with an eye to getting out of issues which are no longer attractive on a yield basis. There are many such issues and the investor would do well to consider the better opportunities in the bond market that are available.

BOND BUYERS' GUIDE

		Apx. Price	Apx. Yield	Int. Earned on entire funded debt‡
	BETTER GRADE			
	Foreign Governments.			
1.	City of Christiania (b) 8s, 1945	110¼	7.10	....
2.	Danish Municipal (b) S. K. 8s, 1946	109¼	7.15	....
3.	City of Zurich (b) 8s, 1945	114½	6.75	....
4.	City of Copenhagen (b) 5½s, 1944	93½	6.05	....
5.	Kingdom of Sweden 6s, 1939	105½	5.50	....
6.	Argentine (c) 5s, 1945	83	6.40	....
7.	U. K. of Gr. Britain & Ireland (c) 5½s, 1937	104¼	5.05	....
8.	Dominion of Canada (c) 5s, 1931	100⅛	5.00	....
	MORE SPECULATIVE			
1.	Kingdom of Italy (d) 6½s, 1925	96¼	7.90	....
2.	Republic of Chile (b) 8s, 1941	104¼	7.00	....
3.	Sao Paulo (b) 8s, 1936	103	7.65	....
4.	U. S. of Brazil 8s, 1941	103¼	7.70	....
	GILT EDGE.			
	Railroads.			
1.	Balt. & Ohio S. W. Div. (b) 1st Mtg. 3½s, 1925	93¾	5.80	.80‡
2.	Ches. & Ohio (a) Genl. Mtg. 4½s, 1992	90	5.00	2.20
3.	Delaware & Hudson (a) 1st & Ref. 4s, 1943	92⅞	4.55	1.65
4.	Southern Pacific (b) 1st Ref. 4s, 1955	91½	4.50	1.65
5.	Chic., Burl. & Quincy (a) Genl. Mtg. 4s, 1958	92	4.45	2.40
6.	N. Y. Central Genl. Mtg. 3½s, 1997	81⅞	4.30	1.80
7.	N. Y., Chic. & St. Louis 1st Mtg. 4s, 1937	91⅛	4.80	2.35
8.	Atlantic Coast Line (a) 1st Mtg. 4s, 1952	91½	4.50	1.55
9.	Pennsylvania (a) Genl. Mtg. 4½s, 1965	94⅛	4.80	2.20
10.	West Shore (a) 1st Mtg. 4s, 2361	85¼	4.80	**
11.	Norfolk & Western (c) Cons. 4s, 1996	94½	4.25	3.95
12.	Central R. R. of N. J. (a) Genl. Mtg. 5s, 1987	109¼	4.55	1.40
13.	Chic., R. I. & Pacific (a) Genl. Mtg. 4s, 1988	86½	4.66	1.00
	Industrials.			
1.	Armour & Co. (a) R. E. 4½s, 1939	92	5.20	†
2.	General Electric (b) Deb. 5s, 1952	101¼	4.90	6.75
3.	International Paper (a) 5s, 1947	90⅜	5.70	5.55
4.	Indiana Steel (a) 5s, 1952	101⅜	4.90	16.70
5.	Liggett & Myers (aa) Deb. 5s, 1951	100	5.00	4.65
6.	Baldwin Loco. (a) 5s, 1940	103¾	4.72	3.50
7.	National Tube (a) 5s, 1952	101⅜	4.90	**
8.	Corn Products (a) 5s, 1934	101¾	4.80	60.70
9.	U. S. Steel (a) 5s, 1963	104	4.77	8.70
	Public Utilities.			
1.	Duquesne Light (b) 6s, 1949	105¾	5.60	3.40
2.	American Tel. & Tel. (c) 5s, 1946	100½	5.00	4.80
3.	Philadelphia Co. (c) 6s, 1944	101½	5.88	3.50
4.	N. Y. Telephone (b) 4½s, 1939	96½	4.80	**
5.	Montana Power (c) 5s, 1943	99¼	5.05	2.90
6.	Cal. Gas & Electric (a) 5s, 1937	98	5.20	4.15
7.	N. Y. G., E. L., H. & P. (a) 5s, 1948	100	5.00	2.10
8.	Pac. Tel. & Tel. (a) 5s, 1937	100	5.00	1.75
	MIDDLE GRADE.			
	Railroads.			
1.	Cleve., Cin., Chic. & St. L. (a) Deb. 4½s, 1931	92¾	5.55	2.40
2.	Ches. & Ohio (b) Conv. 5s, 1946	97¾	5.20	1.55
3.	Missouri, Kansas & Texas Prior Lien 5s, 1962	87½	5.80	.75
4.	St. Louis-San Fran. (a) Prior Lien 4s, 1950	76½	5.70	1.60
5.	Balt. & Ohio (b) 1st Mtg. 4s, 1948	87	4.90	0.80
6.	Illinois Central (b) Col. Trust 4s, 1952	87	4.80	2.25
7.	Pere Marquette (c) 1st Mtg. 5s, 1956	100½	5.00	2.05
8.	Kansas City Southern (a) 1st Mtg. 3s, 1950	71¼	4.90	1.70
9.	Southern Pacific (b) Col. Trust 4s, 1949	89½	4.70	2.40
10.	St. Louis Southwestern (a) 1st Mtg. 4s, 1989	80½	5.00	2.00
11.	Chic. & Eastern Ill. (c) Gen. 5s, 1951	86	6.00	2.10
	Industrials.			
1.	South Porto Rico 1st Mtg. 7s, 1941	103	6.70	5.50
2.	Sinclair 1st Lien, Col. Tr. 7s, 1937	101¼	6.80	3.70
3.	Wilson & Co. (a) 1st 6s, 1941	101	5.90	2.10
4.	Adams Express (b) 4s, 1948	80¼	5.37	2.60
5.	Comp. Tab. & Recording (b) 6s, 1941	98½	6.12	5.45
6.	Int. Merc. Marine (b) 6s, 1941	93¼	6.60	5.15
7.	Lackawanna Steel (c) 5s, 1950	93½	5.45	6.90
8.	U. S. Rubber (c) 5s, 1947	90⅝	5.70	2.35
9.	Amer. Smelting & Refining (c) 5s, 1947	95¼	5.30	5.00
10.	Goodyear Tire (c) 8s, 1941	116½	6.50	9.55
	Public Utilities.			
1.	Public Service Corp. of N. J. (a) 5s, 1959	89½	5.70	1.50
2.	Detroit Edison (c) Ref. 5s, 1940	98	5.10	2.80
3.	Brooklyn Union Gas (a) 5s, 1945	98¼	5.12	*1.35
4.	Northern States Power (b) 5s, 1941	94½	5.50	1.80
5.	Brooklyn Edison (c) 5s, 1949	98½	5.10	2.20
6.	Utah Power & Light (a) 5s, 1944	94¼	5.45	1.80
7.	Cumberland Tel. & Tel. (b) 5s, 1937	95	5.50	1.70
	SPECULATIVE.			
	Railroads.			
1.	Western Maryland (a) 1st Mtg. 4s, 1952	68¼	6.40	.70
2.	Iowa Central (a) 1st Mtg. 5s, 1938	81½	6.90	....
3.	St. Louis Southwestern (a) Cons. Mtg. 4s, 1932	79	6.90	2.00
4.	St. Louis-San Francisco (a) Adj. Mtg. 6s, 1955	86¼	7.10	*1.90
5.	Mo., Kansas & Texas Adj. Mtg. 5s, 1967	64⅜	7.90	.75
6.	Erie (a) Genl. Lien 4s, 1996	54½	7.40	0.70
7.	Southern Railway (a) Genl. Mtg. 4s, 1956	72¼	5.90	1.85
8.	Missouri Pacific (b) Genl. Mtg. 4s, 1975	68¼	6.00	.90
9.	Carolina, Clinch. & Ohio (c) 1st Mtg. 5s, 1938	91⅛	5.88	1.40
10.	Chic. Gt. Western (a) 1st 4s, 1959	54⅛	7.75	..
11.	Int. & Gt. Northern Adj. 6s, 1952	53⅝	11.55	0.60
	Industrials.			
1.	Chile Copper (b) 6s, 1932	95	6.70	8.80
2.	Va.-Carolina Chemical (c) 7½s, 1932	105¼	6.75	2.75
3.	American Writing Paper (a) 6s, 1939	86⅛	7.40	1.90
4.	American Cotton Oil (a) 5s, 1931	91½	6.25	3.15
5.	Cuba Cane Sugar (c) 7s, 1930	89	8.95	1.80
	Public Utilities.			
1.	Hudson & Manhattan (c) Rfdg. 5s, 1957	87½	5.84	*1.60
2.	Intr. Rapid Transit (a) 5s, 1966	72¾	7.00	1.60
3.	Third Avenue (b) Refg. 4s, 1960	69¼	6.00	*1.20
4.	Va. Railway & Power (a) 5s, 1934	84⅛	6.95	1.90

(aa) Lowest denomination, $5,000. (b) Lowest denomination, $500. (d) Lowest denomination, $50
(a) Lowest denomination, $1,000. (c) Lowest denomination, $100.

(x) This issue was created on May 1, 1921.

† This issue, which represents the entire funded debt of the company, was created on Nov. 1, 1920.

* Number of times over interest on these bonds was earned.

** Earnings are not reported separately.

‡ This represents number of times interest on the companies' entire outstanding funded debt was earned, based on actual earnings of last five years. Interest on this issue was fully covered.

Railroads

Improving Position of Northern Pacific

Present Status and Outlook of the Road

An interview with HOWARD ELLIOTT

Chairman of the Northern Pacific R. R. Co.

As reported by Benjamin Norton

THE Northern Pacific Railway system, comprising nearly 7,000 miles, has more than met all the prophecies regarding its future which its original projectors advanced fifty-two years ago. The successful efforts of the one time famous banking house of Jay Cooke & Company in raising the necessary funds were the first genuine impetus leading to the construction of this wonderful property. The historical "Golden Spike," which was driven in September, 1883, connecting the east and west sections of the road marked one of the greatest achievements of the Nineteenth Century. It is a lasting monument to the marvelous foresight and splendid ability of Jay Cooke and the engineers who laid out the road across the northern half of the United States between Lake Superior, the Columbia River and Puget Sound.

This great system has been operated under various managements since its completion and grew with the country to its present high standing among the transportation systems of the United States.

In passing, it seems well worth while to call attention to some of its motive power past and present. This alone tells the story of development better than anything that can be offered. The pigmy locomotive of 1870, compared with the present-day mountain "pusher" presents a picture of comparison of a newly-born chick and a Shanghai chanticleer. It stands for the span between a beginning and a fulfilment.

The development of the company is particularly emphasized by the accompanying comparisons which cover the period from 1896, immediately following the reorganization of the property into the Northern Pacific Railway Company, down to the close of the year 1921. This reorganization was made on a very sound basis by J. P. Morgan & Company, which great conservative banking house has been closely associated with the management of the property ever since.

Today out of a total debt in the hands of the public of $314,904,400, of which $116,008,900 represents one-half ownership of the Burlington, there are:

$7,663,000	maturing	in	1923
3,600,000	"	"	1930
1,140,000	"	"	1931
807,000	"	"	1948
1,000,000	"	"	1968
$14,210,000			

NORTHERN PACIFIC'S RECORD OF A QUARTER OF A CENTURY

	1896	1921
Miles of road operated	4,367	6,667
Miles of track maintained	5,325	10,001
Number of locomotives	584	1,458
Number of freight train cars	18,218	47,319
Number of passenger train cars	439	1,128
Number of revenue tons handled	3,940,913	17,725,724
Number of passengers carried	1,330,634	6,088,689
Number of employees	10,008	28,842
Yearly compensation	$7,691,272	$51,004,937
Average yearly compensation	769	1,768
Number of stockholders	....	37,000
Average holdings, shares	....	67
Number of bondholders	....	30,000
Average holdings	....	$10,430
Operating earnings	$18,455,573	$94,337,319
Operating expenses	12,396,340	77,713,642
Taxes	505,551	9,141,168
Operating income	5,553,683	7,482,509
Other income	309,016	*29,091,385
Total income	5,862,699	36,573,894
Fixed charges	6,132,298	14,662,190
Dividends	None	17,360,000
Capital assets	$312,912,796	$761,229,723
Capital liabilities	316,000,000	570,988,848
Cash	4,624,442	15,462,330
Other current assets	2,729,326	26,011,321
Current liabilities	3,796,988	22,316,203
Net corporate surplus	489,829	183,565,179

*Includes C. B. & Q. extra dividend of $12,450,000.

The balance of the bonds do not mature until 1996 or 2047. Of these $8,702,300 are 5s which can be called in 1952 and $107,306,600 are 6s which can be called in 1936; the balance, $184,685,500, are 3s, 4s and 4½s.

For the past twenty years this property, which has been improved and developed steadily, has had a strong and active Board of Directors, with and under them Howard Elliott as President in St. Paul in 1903, and now as chairman in New York. The writer, who has had the pleasure of an acquaintance with Mr. Elliott for more than twenty years, called on him at his office in New York the other day to learn something of interest to readers of THE MAGAZINE OF WALL STREET about the Northern Pacific and found him very glad to respond to the questions which were propounded.

Crop Situation in Northwest

Among the questions was one as to the general situation in the northwest as to crops and general business outlook, which Mr. Elliott answered as follows:

"Nature has been very kind to the northwest this year. Minnesota, North Dakota and Montana all have very good crops of grain and grasses and in Montana the sugar beet crop is the best for years. Cattle and hog outlook also is better. All in all, in these three states, the general agricultural output is much better than a year ago and much above the average.

"The needs of the rest of the country for lumber are very great and more and more must this material come from Montana, Idaho, Washington and Oregon, as the southern lumber is needed for home consumption. The Northern Pacific is fortunate in having its rails in or near the great lumber producing regions of Washington and Oregon.

"With an agricultural output above normal and with a sharp demand for lumber, there should be a steady business for some months to come and a general improvement in the purchasing power of the northwest resulting in a good movement of manufactured articles and merchandise. In fact, the freight car loadings for August were the heaviest for that month for five years and the same is true for the first two weeks of September.

"In connection with the general business outlook, the supply of fuel is important. Adequate supply of fuel is a difficult problem for the whole country, but the Northern Pacific has a great asset in the ownership of mines already developed in Montana and Washington with a capacity of 10,000 tons per day and with a large reserve coal acreage which can be developed in the future and care for the fuel demands of the company west of

the Missouri River for many years to come. On the east end of the road some of the fuel must come by water to Duluth and Superior, or by rail from southern Illinois. North Dakota has an unlimited quantity of lignite coal, which is being used more and more for domestic and industrial purposes. Through the Northern Pacific's one-half ownership in the Burlington, it has ready access to the great coal fields of central and southern Illinois.

"Some oil has already been produced in Montana—at Cat Creek in the central part and at Soap Creek in the southern part. The Northern Pacific has a large acreage of land in regions where geological examinations show that there may be oil and there are great possibilities that oil may be found to be available in the future for fuel and other domestic purposes.

Growth of Northwest Country

"You ask me about the St. Paul extension, and in discussing that I will also mention some other extensions. The new line of the St. Paul to the Coast developed very little new country and duplicated existing transportation facilities that already gave good service to the public. The Union Pacific built into the prolific Yakima Valley of Washington—long exclusively a Northern Pacific territory and they also use the Northern Pacific line between Portland and Tacoma, reaching Seattle over the St. Paul road. The Great Northern uses the Northern Pacific line and facilities between Seattle and Portland. The Union Pacific and St. Paul also reach some of what was formerly exclusive lumber regions of the Northern Pacific at Grays and Willapa Harbors on the Pacific Coast.

"The fact that these roads all have been seeking what was formerly almost exclusively Northern Pacific territory is an indication of the growth of the country since the Northern Pacific pioneered through almost a wilderness. The fact also that the Northern Pacific, in spite of the cutting into its business at nearly all of its important points, has sustained itself and held its own, is a tribute to its original location in productive valleys and forest regions, to its strong terminals in all important cities and towns, to its standing with the public and, if I may say so, to the intelligence and activity of its management.

"It is idle, of course, to say that with its territory cut in many directions by the St. Paul, Union Pacific and Great Northern roads the Northern Pacific does not suffer a loss of gross earnings, but it is holding its own today with all of these companies at every point where they meet."

Northern Pacific-Burlington

In answering the question as to what are the relations between the Northern Pacific and the Burlington, Mr. Elliott said: "As you know, the Burlington is owned practically one-half by the Northern Pacific and one-half by the Great Northern, and a very large business is interchanged between both the Great Northern and Northern Pacific and the Burlington via Billings in Central Montana and the Twin Cities in Minnesota. The prairie regions served by the Burlington are great consumers of the lumber from the west end of the Northern Pacific line and there is a large movement of this business via Billings as well as fruit and other Pacific Coast products, and, a return movement of merchandise and manufactured articles. There is also much lumber via the Twin City gateway and the coal business from Illinois to Minnesota is of growing importance, as the demands for eastern coal increase with the growing population east of the Ohio-Indiana state line.

The relations between the Northern Pacific and Burlington are intimate and cooperative in every direction, and good through service, both freight and passenger is furnished through the affiliation of these two companies.

The company, during the last three years, has had all of its main line passenger train cars remodeled by applying complete steel underframes, steel platforms, steel sheathing, so that for a climate of considerable heat in summer and extreme cold in winter, the cars are superior to any in the country, as they are wooden-lined, less cold in winter and less warm in summer. Its transcontinental trains today from Chicago, St. Louis and Kansas City to Portland and Puget Sound points are second to no road in equipment, safety, comfort, dining-car service and scenery seen en route.

During 1920 and 1921, 81 powerful engines were received and the company is well equipped with modern locomotives, mostly superheated.

In the funded debt of the company are $3,600,000 of equipment notes, which is the only public financing in connection with any of the equipment purchases.

Expansion of Equipment Facilities

"You ask about equipment?

"The following equipment is now on order and builders are being urged to expedite it in every way:

1,000 freight refrigerator cars.
1,000 automobile cars.
250 stock cars.
250 gondola cars.
250 Hart Convertible cars.
70 passenger train refrigerator cars."

Panama Canal Competition

Concerning Panama Canal competition and the general subject of inter-mountain rates Mr. Elliott said: "This is an intricate subject, but one of great importance not only to the transcontinental railroads and particularly the Northern Pacific, but to the country as a whole. The Northern Pacific has always been a heavy carrier of transcontinental freight, a very large proportion of which now is being diverted to the Panama Canal, thus entailing a serious loss in gross earnings. There is also a loss in net, because the normal movement of business on the Northern Pacific is such that for a great part of the year cars are moving westbound empty for grain and lumber. It would seem desirable for the Commerce Commission to permit the transcontinental roads to take business from the great manufacturing regions in the Mississippi Valley through to the Pacific Coast, meeting in part, at least, the competition of similar enterprises on the Atlantic Coast, without reducing all the rates to the intermediate territory.

"Unless this is done, it means in time a greater concentration of manufacturing and jobbing business on the Atlantic and Pacific Coasts with consequent loss to the Mississippi Valley territory. For that reason the question is a national one as well as a railroad one, because one of our national problems is "decentralization" of population instead of increasing the congestion in cities. It certainly is a sound national policy to have manufacturing and jobbing establishments at as many points as possible throughout the country and not try to drive them all to the Coast. Also the failure to permit the transcontinental roads to engage in some of this long-haul business means that rates on other classes of business must be higher than they otherwise would be, if the roads are to be sustained in accordance with the recent declaration of the people through Congress that they prefer the railroads to be supported through rates rather than owned by the Government or supported by taxation. The making of higher rates on other business because of the loss of long-haul freight retards the growth of the interior country.

Operating Expenses

"With regard to operating expenses and possible reductions in the future will say

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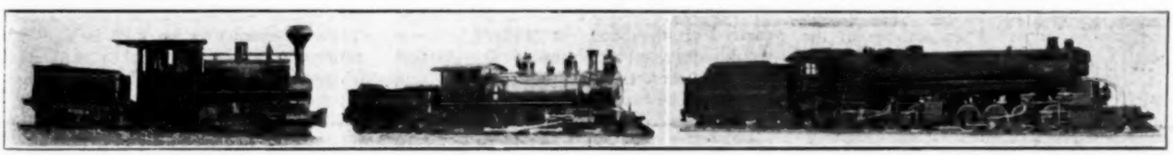
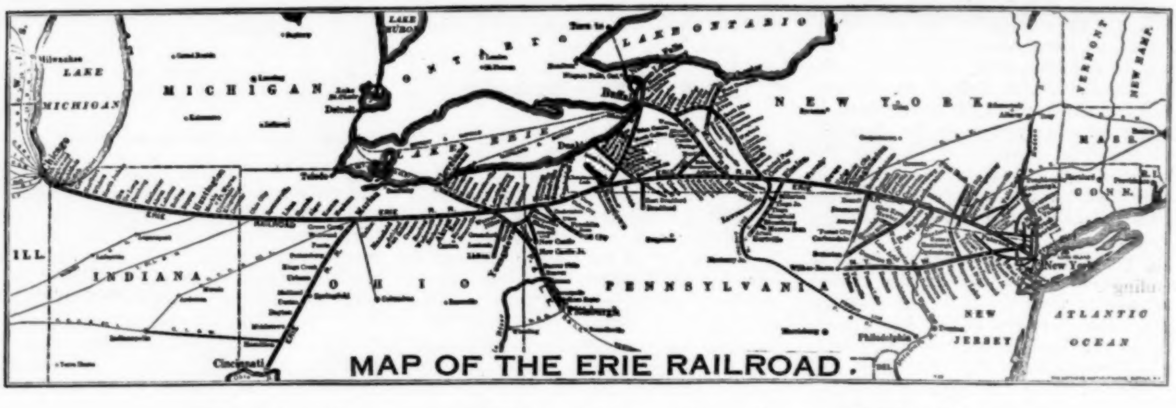


1870 **1889** **1922**

Locomotive Evolution on the Northern Pacific Since 1870



MAP OF THE ERIE RAILROAD

Brighter Outlook for Erie

Resumption of Large Earnings Should Follow Settlement of Coal Strikes—Which Issue Is Most Attractive?

By ARTHUR J. NEUMARK

ERIE is a road that has long been held in disrepute by the investing public. It has been a target for ridicule by facetiously inclined individuals. Traveling on the Erie is a household joke. There may be much of the humorous about Erie, but what will probably interest readers of THE MAGAZINE OF WALL STREET more is the possibilities for substantial profit in the road's securities. It will then be a case of "he who laughs last, laughs best."

The Erie R. R. is essentially a coal carrier, approximately 47% of its traffic coming from the bituminous and anthracite coal fields of Indiana, Ohio and Pennsylvania. Under normal conditions the road handles about an equal amount of both classes of coal, but varying conditions in the respective industries often bring about large fluctuations in the annual tonnage figures.

The last two years of operation afford an excellent illustration of these changes. The number of tons of coal carried and the percentage to the total amount of traffic was as follows:

(000 omitted)	1921	(%)	1920	(%)
Anthracite	9,973	28.7	9,988	21.5
Bituminous	6,959	20.0	12,036	25.9

Other products of mines, such as clay, gravel, sand and stone, grain products and manufactured articles account for a large percentage of the balance of the traffic.

Strategic Position and Growth

Erie operates throughout some of the most highly industrialized sections of the country, and is the largest competitor of the New York Central between Chicago and New York. Erie has no direct entry into either of these important terminal centers, but has trackage rights into Chicago over the Chicago & Western Indiana and owns docks and wharves on the New York side of the Hudson River, operating ferries and barges between Jersey City and the East shore.

All this territory is well covered with railroad facilities, and competition is keen, especially in the eastern section between Buffalo and New York, but under normal conditions there is sufficient traffic for all roads with proper facilities. Erie has given a good account of itself as far as obtaining its share of the increased traffic in the past six years.

There seems to exists a rather prevalent belief that Erie is grossly overcapitalized. The facts do not justify it.

On June 30, 1916, the road's investment in road and equipment, as carried on the books was at the rate of $116,748 per mile of all track operated. This compared with the following per-mile figures of other leading roads operating in the same sections, or carrying a similar diversification of traffic:

	Invest. in Road & Equip. Per Mile of All Track June 30th, 1916
New York Central	$101,913
Delaware & Hudson	103,353
Lehigh Valley	83,597
Delaware, Lack. & Western	111,879
Baltimore & Ohio	103,700

From this it would seem that Erie's per-mile investment in property and equipment exceeds the average per-mile investment of the above roads by about $13,000. Allowing for a very conservative estimate of about $100,000 per mile, Erie's property and equipment account would stand at about $295,000,000, compared with a book value of $347,546,696. Allowing for a similar reduction in the value of investments in affiliated companies, carried on the books at $142,658,189, we would arrive at a figure of $121,260,000 for this account.

On the basis of the above calculation total assets of the company, as of December 31st, 1921, amounted to over $590,000,000, against which there were liabilities of $444,800,000, including funded debt, but exclusive of stock issues.

The preferred stocks outstanding amount to but $63,904,400, indicating an asset value of 100 cents on the dollar for each share of first and second preferred shares outstanding, with a balance of $81,300,000 applicable to $112,481,900 of common.

In the past ten years Erie has earned over $36,700,000 in excess of all fixed charges and sinking fund requirements. With the exception of the three years of Federal Control, fixed charges were fully earned in every year and although actual operations from 1918 to 1920, inclusive, resulted in large deficits, it was the Government that sustained the loss and not the road. Erie put over $55,000,000 into additions, improvements, and general upbuilding of the property in the past ten years. Profit and Loss surplus increased $17,000,000 in the same period, making a total increase in road and equipment and surplus accounts of $72,000,000.

As previously stated the road earned clear, above all charges, about $36,700,000 in the ten-year period, accounting for practically 50% of the increases in property value and surplus.

Condition of Road and Equipment

In addition to the large additions and improvements made in the property Erie has been expending large sums for maintenance the past five years. Throughout the entire period from 1918 to 1921, inclusive, not less than 41% of annual gross revenue was expended for maintenance of way and structures and equipment. The physical condition of the road is good. The management has done a great deal of construction work on bridges and stations. Decrepit trestles and worn bridges have been torn down and rebuilt to meet the requirements of the greatly increased volume of traffic. Condition of the road-bed has also been materially improved in recent years.

The present status of the road's equipment, however, leaves much to be desired.

The Interstate Commerce Commission's report on the condition of equipment on the leading Class I roads as of July 1st, 1922, showed one-third of the average number of freight locomotives in daily use unserviceable, compared with 25.3% in the corresponding month of last year. This is a considerably higher percentage of bad-order locomotives than exists on the large majority of roads. It is unofficially stated, however, that this condition has already been largely improved and that a program of complete overhauling of all classes of equipment is under way. By the end of the year Erie will have made a large percentage of its locomotives serviceable. The condition of the freight-car equipment is fairly good, only 19.1% being unserviceable on July 1st, compared with 21.7% on July 1st, 1921.

In addition to putting the old equipment in shape Erie has purchased a large number of new locomotives and freight cars this year, so that before long it will be in a position to handle all traffic more economically.

In the fiscal year ended June 30th, 1912, Erie hauled 36,961,686 tons of revenue freight and 26,205,266 passengers. Last year the road carried 43,717,542 tons, an increase of 18.4% and 28,775,775 passengers, an increase of 9.5%. In this same period the outstanding funded debt increased from $201,810,000 to $221,200,000, an increase of but 9.6%. The funded debt was further increased by the sale of $5,000,000 of Consolidated 7% bonds in the early part of this year. In addition to this, there are about $34,800,000 of 6% Gold notes outstanding, secured by pledge of mortgage bonds, $31,200,000 of which will have to be funded within the next nine years. The present annual interest charges of the road amount to $11,900,000, compared with $10,300,000 in 1912. This is a comparatively small increase in fixed charges for a period of such tremendous industrial expansion. Few roads can show as conservative a financial policy. **It thus stands to reason that with a return of normal conditions in railroad operation, Erie will be in a position to operate at a greater profit than ever before.**

Pennsylvania Coal Company Properties

The Pennsylvania Coal Company is controlled by Erie. It is a very large producer of anthracite coal and has long been the most profitable outside investment of the company. Last year dividends received from the coal company were sufficient to cover 80% of interest charges and total "other income" just about covered all interest charges on the funded debt. While it is not to be expected that the coal company can continue to pay such large dividends, the income from this and other sources will very likely be sufficient to cover between 60 and 65% of interest charges. Other income for the five years ended December 31st, 1920, average well over $6,000,000 per annum.

The five largest issues of the Erie R. R. are the Prior Lien 4s, the General Lien 4s, the Pennsylvania Collateral 4s, the Convertible 4s and the extended 1st Consolidated 7s. With the exception of the Pennsylvania Collateral 4s, the above issues are selling on a high yield basis and appear to be very attractive at current prices. For the investor who is interested primarily in safety of principal, the Prior Lien 4s seem to combine safety with an attractive yield.

The Prior Lien 4s of 1996 are a first lien on 262 miles of road and a second collateral lien on 706 miles through deposit of the entire capital stock of the Nypano, Tioga, and Chicago and Erie Railroads and $9,902,000 of a $10,000,000 issue of 5% income bonds of the last named road. The mileage covered by these bonds constitutes a very important part of the system. The bonds are a third lien on 127 miles and a seventh lien on 447 miles, or a mortgage on 1,645 miles of road in all, subject to $69,795,900 of prior liens.

Earnings of the road for the six years prior to Federal operation averaged 1½ times total interest requirements. On the basis of the standard return from 1918 to 1920, both years inclusive, earnings averaged 1.6 times interest charges. For the first seven months of this year earnings were at the annual rate of 1.1 times interest charges, despite the severe handicaps of the past four months.

From the point of view of both security and earnings these bonds are entitled to a good rating. The issue is a closed mortgage; bonds are outstanding to the amount of $35,000,000. At the present selling price of around 65½ the bonds yield 6.1 to maturity, giving the purchaser a very attractive return for life.

The General Lien 4s of 1996 are secured on the same mileage as the above bonds, but are subsequent in lien thereto. There are $35,885,000 outstanding, $19,217,000 are pledged as collateral under a loan from the War Finance Corporation and the balance, $84,896,000, are reserved for redemption of prior liens at maturity. These bonds are selling around 54¼ to yield 7.4% to maturity. The increasing earning power of the road entitles these bonds to a fairly high rating and at the present price they offer very excellent opportunity for material enhancement in value.

The Convertible series D, of 1953, are a lien on the same mileage as the above issues, but subsequent in lien thereto. These bonds are furthest removed from the property of any of the funded issues. This, combined with the fact that no dividends have been paid on either preferred issue since 1907, gives the bonds a poor investment rating. Earnings of the road, however, were sufficient to show substantial balances on the second preferred in 1912, 1913, 1915 and 1916 and for the current year will probably be well in excess of 4% on this class of stock. The bonds are selling around 54½, at which price they yield 8% to maturity. This is entirely too high a yield for a bond, the interest on which has been earned on an average of 1½ times during the past ten years, and when the road is in a good financial position. As conditions continue to improve these bonds are certain to sell on a higher investment plan. These bonds sold as high as 84 in 1917 and have very good possibilities of selling there again.

For the investor seeking a short term investment the Consolidated 7s should prove attractive. These bonds originally matured on September 1st, 1920, but owing to the weakened credit position of the road as a result of three years of poor operating results, it was deemed advisable to extend the bonds instead of attempting to refund the issue through the sale of General Lien 4s, sufficient amount of which have been retired to redeem this issue. The maturity date is now set for September 1st, 1930. This issue ranks ahead of the Prior Lien and General Lien 4s, on 447 of the 526 miles of road covered, or on that part of the system which is covered by seventh and eighth mortgages, respectively, by the above issues. As the 7s are secured only as a sixth lien on a comparatively small section of the road they cannot be given as high a rating as the Prior Lien and

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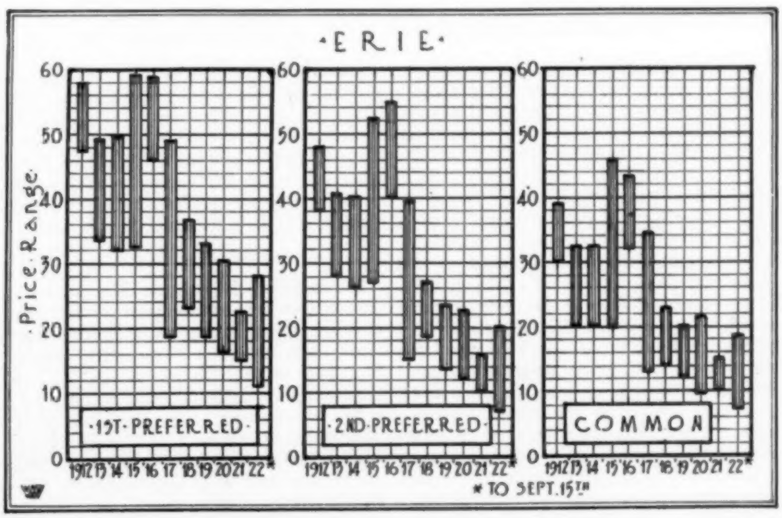

Industrials

What Is Ahead for Shipping Stocks?

An Analysis of the Position and Prospects of the Leading Shipping Companies

By JOHN MORROW

THOUGH many industries have thus far given signs of business recovery, the steamship lines so far have drawn a blank. Since early 1920 ocean freight rates have declined steadily and they must now be scraping bottom. Accompanying this has been a policy of almost ruinous competition among ocean cargo carriers and a noticeable lack of cooperation in establishing a foundation upon which a start toward recovery might be made. As yet there are few signs to indicate that ocean freight rates will tend upward. Trans-Atlantic passenger business this year has been better than in 1921, but the immigration restrictions have cut seriously into third-class earnings and thus the first and second-class rates have been forced to take up the slack and they are at such high levels that any revision should be downward.

During the war there was much discussion as to how long it would take after the war to supplant the ocean tonnage destroyed by submarine depredations. According to Lloyd's figures the total world's gross shipping tonnage in June, 1914, was 42,514,000, whereas in June, 1922, the total was 56,882,000 tons—an increase of 14,288,000, of which increase the United States contributed over ten million tons.

In the face of this increase in tonnage there has been a steady dwindling in the volume of goods interchanged between countries, with the result that cargo space has exceeded cargos offered. Naturally such a condition has had its effect upon the shares of companies vitally concerned in the steamship business and the question now arises as to whether the known unfavorable factors have been discounted and whether, if so, there are any signs looking toward eventual improvement and restoration of material earning power. An analysis of the position of the leading companies engaged in this field and whose shares are listed on the N. Y. Stock Exchange, is given herewith.

An old square-rigger, a type of vessel now gradually disappearing from the seas

INTERNATIONAL MERCANTILE MARINE

Uncertainty Marks Outlook for Preferred

PROBABLY the shipping company which merits the most attention from American investors is International Mercantile Marine. This company, originally incorporated in 1893, has had rather a stormy career which culminated in the financial readjustment of 1916. For six years following the readjustment, earnings left little to be desired—the company benefiting materially from the war.

Last year there was a sharp decline, but the preferred dividend was more than earned. Earnings for 1922 are likely to be smaller than those for 1921 and in fact the unsatisfactory prognostications over the outlook is quite responsible for the recent decline in the company's securities. Accompanying these statements of unfavorable earnings were statements to the effect that there ought to be an improvement in passenger business during the last six months of 1922 as compared with the first six months and that the outlook was favorable for some improvement in the freight situation. Unfortunately figures are not available to show whether or not the company has earned or is earning the preferred dividend this year though it is doubtful that it will.

What Marine Possesses

International Mercantile Marine owns or controls a gross tonnage of 1,135,000 tons of ships, taking in the American, Red Star, Atlantic Transport, White Star and Leyland lines. About 90% of the tonnage is under foreign registry and only 10% under the American flag. Therefore, the passage of a ship subsidy bill by Congress would benefit only 10% of the tonnage. It is said that most shipping interests have written down tonnage, that is, freight-carrying ships, to a book value of about $30 a ton. The ships of International Mercantile Marine are of a higher standard and in the open market would of course bring figures higher than those for small freighters. At present prices the security market valuation of Mercantile Marine tonnage is approximately $40 a ton, which is under their going market value. In addition to shrinking earnings and decreasing values of ocean tonnage, International Mercantile Marine experienced a substantial decline in working capital during 1921. The company used up over twelve million dollars of net cash resources and put over twelve million dollars into fixed assets. It is likely that a substantial part went for construction of new offices and for building the new ships which were delivered to the company this year, which included the Homeric and Majestic, the giant White Star liners. At the end of 1921 the company had a working capital of something less than twenty-three million dollars compared with over thirty-five million dollars at the end of 1920, and there was an actual decrease of over seven million dollars in cash with which the company was exceptionally well supplied at the end of 1920. Cash holdings at the end of 1921 were lower than for any year end since the end of 1916.

Thus, in considering the position of International Mercantile Marine, we have unsatisfactory earnings, unsettlement in

HOW TWO LEADING SHIPPING STOCKS ARE RATED

Element	INTER. MERC. MARINE Qualifications	Rating	Rating No.	AMER. INTERNATIONAL Qualifications	Rating	Rating No.
(1) Character	Essential to commerce	Excellent	5	Essential to commerce	Excellent	5
(2) Past Record	Uneven earning power	Fair	3	Good during war period	Fair	3
(3) Future Possibilities	Dependent on international political factors	Fair	3	Dependent on restoration of world trade	Fair	3
(4) Management	Extremely efficient	Excellent	5	High character	Excellent	5
(5) Financial Strength	Large, though diminishing working capital	Good	4	Slowly improving	Fair	3
(6) Earning Power	Gradually deteriorating	Fair	3	Should gradually improve, but still unstable	Fair	3
			23			22

Maximum Number of Points, 30.

ocean transportation and relatively small export and import busness, all coming at a time when the company has just expended materially for new ships, cost of which has drawn down cash resources and eaten somewhat into reserves. There is no intention of inferring that the cash position or reserves have dwindled to the danger point or to anything like it. Asset value has not been impaired, but rather has been increased by the addition of the new tonnage, but liquid position and earning power are the tender spots.

Conclusion

International Mercantile Marine has three classes of securities—the first mortgage and collateral trust 6% bonds, 1941, amounting to 37 million dollars; the 6% cumulative preferred, amounting to nearly 52 million dollars and the common, amounting to almost 50 million dollars. The first mortgage and collateral trust 6s are secured by a first mortgage on all the property, including the ships of the American Line and by deposit of the owned capital stock and securities of foreign subsidiaries. Since 1912 there has been only one year, 1914, in which bond interest was not earned. **The bonds are currently selling to give a direct income return of better than 6%, and while they are not highest grade, they are good grade, both from the standpoint of earning power and from the standpoint of collateral value.**

Since January 1, 1917, the preferred stock has paid a total of 73% in dividends and at the present time there are accumulations on the issue amounting to 42%. The regular rate of 6% is being paid, but it is just as well to dismiss for the present any idea of extra dividends on account of accumulations. The main present question is whether the company will be conservatively able to continue the 6% rate; as payments are paid semi-annually the question does not come up for consideration until late in the current year and action of directors may hinge largely upon the Fall business and the outlook for next year. **Under the circumstances, with uncertainties shrouding the outlook for dividends on this issue, it must be considered in a speculative position, though intrinsically it is of merit.**

The position of the common stock is entirely speculative. Shares are far removed from dividend possibilities and do not appear to be attractive.

AMERICAN INTERNATIONAL CORPORATION

Dependent on Foreign Trade Prospects

In many ways the American International Corporation has been one of the greatest market disappointments of recent years. The big decline in stock, the suspension of dividends, the shrinkage of earnings and the impairment of some assets, all have combined to place the corporation in a more or less unfavorable light. The war made it impossible to carry out original plans and the ensuing complications were quite too much for human endeavor to surmount. In other words, the management can scarcely be held to account for the disappointed expectations.

American International was incorporated late in 1915 to develop export and import trade, to encourage use of American products in foreign countries and to employ American capital in construction of foreign enterprises. Naturally the object of such a business plan allied American International with the shipping business.

Security Investments

As has been said the war interfered with fundamental plans and part of surplus capital was used to acquire large interests in the shares of various domestic corporations. These investments became very substantial, particularly in the stocks of the International Mercantile Marine, U. S. Rubber, United Fruit, Pacific Mail, New York Shipbuilding and Simms petroleum. So far as is known American International still retains the stock holdings

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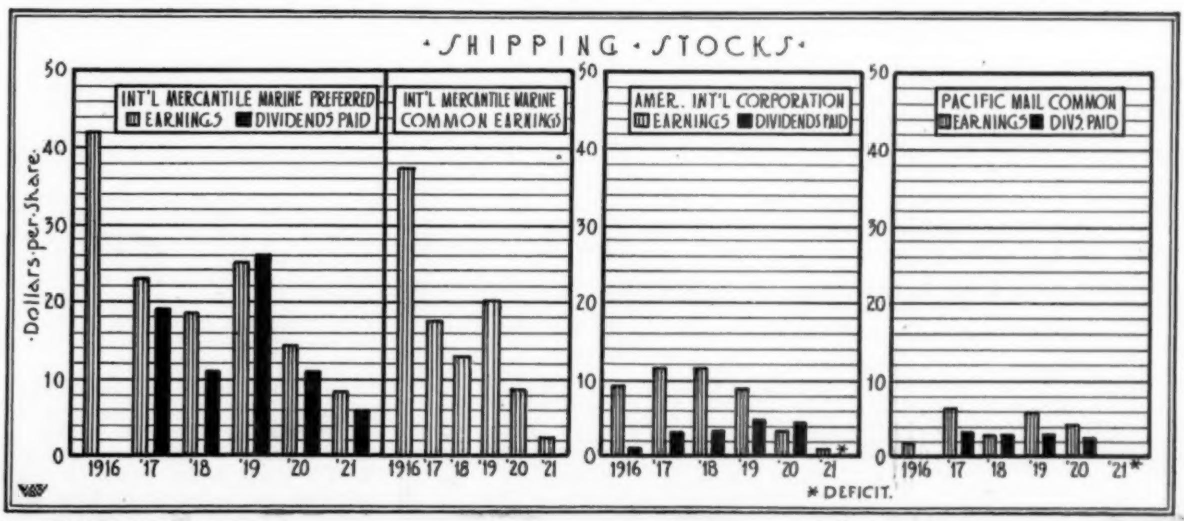


General American Tank Car Co.

The Biggest Tank Car Manufacturer

Earnings Greatly in Excess of Dividend Requirements—Strong Financial Position—Outlook for the Shares

By W. A. WARREN

GENERAL American Tank Car is the largest manufacturer of tank cars in the world and is also one of the largest manufacturers of railway freight cars of every description. An important source of revenue also is obtained from the leasing of tank cars to other companies there now being over 10,000 in that service. The company was organized in 1916 as a holding company, controlling four subsidiaries. The main plant is located at East Chicago, Ind., and there are smaller plants at Warren, O., and Sand Springs, Okla.

As can be seen by the accompanying graph, a very consistent earning power has been shown in the past. It will be noted that despite the business depression of 1921, operating profits were the greatest in the company's history. Net income showed a falling off due to very heavy charges for depreciation in inventory, bad debts and other items. It is good opinion that these charges were much more drastic then conditions warranted. After allowing for all charges there was a balance available for the common stock equal to $3.20 per share.

Earnings for the four years ended with 1921 averaged $4.56 a share on the common stock outstanding, after deducting full dividends on the entire preferred stock at present outstanding. This is a very fair showing as of course in these years the company did not have the benefit of the money recently raised by the sale of preferred shares, of which $2,500,000 was sold in March of this year.

Business Increasing

In the current year business has been coming in at a very gratifying rate. For the first six months new orders valued at 21 millions were received which compares with only 14 millions in the same period of 1921. The contracts call for the delivery of over 10 thousand cars to railroads in all sections of the country. The outlook for additional equipment orders is exceedingly bright. On the basis of operating results that the company has been able to show in the past and on its present booking and outlook, it should be able to show an operating profit of about 5 millions for the full year 1922. After deducting estimated depreciation, taxes, etc., and preferred dividend requirements there remains a balance of about 3 millions, equal to $12 a share on the common stock.

The company's balance sheet as of December 31, 1921, shows an excellent financial condition with a working capital of over 7 millions. For the first time, the company was entirely free of bank loans. Since the first of the year the financial condition has been still further strengthened through the sale of preferred stock bringing working capital up to close to 10 millions. Ratio of current assets to current liabilities at the present time is estimated to be about 7 to 1.

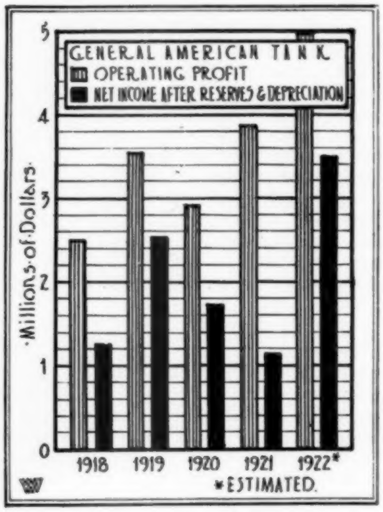
Capitalization consists of $10,941,000 equipment trusts of various maturities; $7,367,000 7% cumulative preferred stock, par $100 and 252,872 shares of common stock of no par value. The common stock was listed on the New York Stock Exchange in May, 1920, and the price range for that year was 44½ low and 77½ high. In 1921, the price range was 59½ high and 39⅞ low and in the current year 71 high and 45¾ low. Dividends at the rate of $3 per share per annum are being paid on the common which at present price of 65 only gives a return on the investment of 4.6%. When it is considered, however, that earnings in the current year are at the rate of about four times the present dividend rate and that the company is in first-class financial condition the conclusion naturally to be drawn is that larger dividend payments must be fairly close at hand.

Conclusion

The preferred stock is entitled to 7% dividends. A sinking fund provides that the corporation shall set aside out of earnings a sum equal to 4% of the par value of the maximum amount of the preferred stock at any time theretofore outstanding. This fund to be used to retire the preferred stock, all or any part of which is subject to redemption at any time at 110. At present price of about 102 the preferred stock yields 6.86%. As earnings at the present time are more than six times the preferred dividend requirements and in the past have always been sufficient to cover present preferred dividend requirements with a very large margin to spare this stock can be regarded as in a very strong position and an attractive investment at its present price.

In the past few weeks the common stock has declined from 71 to present price of 65. This six-point reaction would appear to be due entirely to general market conditions, as the demand for equipment is unabated and should continue to be heavy for some time to come. The dividend on the common stock is paid semi-annually and the next dividend meeting is not due until about the 1st of December. It would seem that directors at that time would be entirely justified in increasing payments to common stockholders.

At 65 the stock appears decidedly attractive as a long-pull specvestment on the basis of its intrinsic merits. As a well-financed equipment company with a good earning power, it seems destined for a period of long prosperity.



HOW GENERAL AMERICAN TANK CAR IS RATED

Element	Qualifications	Rating	Rating No.
(1) Character	Important industry	Good	4
(2) Past Record	Steady earning power	Excellent	5
(3) Future Possibilities	Demand should increase	Good	4
(4) Management	Shows efficiency	Excellent	5
(5) Financial Strength	No bank loans	Good	4
(6) Earning Power	Increasing	Good	4
	Maximum Number of Points, 30.		26

Julius Kayser & Co.

A Sound and Profitable Enterprise

What J. Kayser Has Done This Year—Outlook for the Stock

By GEORGE L. PEARSON

WHILE Julius Kayser & Co. stocks are comparatively newcomers on the New York Stock Exchange, having been listed in May of the current year, they should not be placed in the class of new and unseasoned securities as this company has been in business for many years and has shown a steady and increasing earning power. The business was first started in 1880. In 1887 silk gloves became the chief product of the company, largely because of the patenting of a process for re-reinforcing finger tips. The company also manufactures lisle and woven gloves, hosiery, silk and cotton-ribbed underwear, dress nets and veiling.

JULIUS KAYSER & CO.
Balance Sheet as of April 30, 1922

ASSETS		
Land, buildings, etc.		$6,602,248
Patents, good-will, etc.		5,644,000
Deferred charges		71,493
CURRENT ASSETS—		
Cash and marketable securities	$1,153,867	
Accounts receivable	4,475,711	
Inventories	7,197,363	
Total current assets		12,826,943
Total assets		$25,344,635
LIABILITIES		
Preferred stock		†$7,933,800
Common stock		*6,369,691
Funded debt		4,068,900
Reserves, etc		178,750
Profit and loss surplus		905,585
Capital surplus		2,350,000
CURRENT LIABILITIES—		
Notes payable	$2,825,000	
Bills payable	523,132	
Taxes and accrued dividends	189,826	
Total current liabilities		3,537,958
Total liabilities		$25,344,685

† Represents 66,115 shares of preferred stock of no par value.
* Represents 115,700 shares of common stock of no par value.

Stock Exchanged

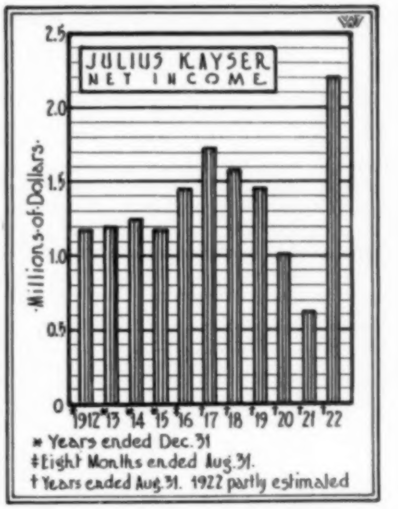
Under a financial plan ratified by stockholders in March of this year the old common stock was exchanged on the basis of four shares of old for four shares of new $8 preferred stock and one share of new common. In addition, common stockholders were given the privilege of subscribing at $20 a share for new common in ratio of 6 shares for each 1 share they received in exchange for holdings of old common. A majority of both common and preferred stock were placed in a voting trust which expires 1927 and the voting trust certificates were listed on the New York Stock Exchange. The capitalization of the company now consists of four million 7% bonds due 1942, 66,115 no par shares of preferred stock entitled to $8 per share per annum cumulative dividends and 115,700 shares of common stock of no par value.

Despite the fact that the recapitalization plan increased the number of shares outstanding to a considerable degree, present capitalization does not seem unduly large in relation to the earning power the company has demonstrated and the value of the assets. Earnings of the past twelve years show an annual average equal to about $7 a share on the present common shares outstanding, after allowing for the full $8 dividends on the new preferred issue, and these earnings of course do not reflect the benefit the company received from the money obtained through sale of new stock at 20. On April 30, the net tangible assets applicable to the common stock, after deducting good-will, patents, etc., was equal to $35 a share on the stock which is a very good showing as the good-will and patents of this company are obviously of great value.

Julius Kayser came through the period of deflation in excellent style. Operating income for year ended August 31, 1921, was well up to the average but inventory depreciation brought earnings down. In spite of this company was able to report a substantial surplus. In the fiscal year ended August 31, 1922, there was a very remarkable comeback in earnings which broke all previous records. For the eight months ended April 30, 1922, the company reported net profits, after interest and depreciation, of a million and a half, equal to $10 a share on the common stock or at the rate of better than $15 a share per annum.

Good Financial Position

As can be seen by the accompanying table the company is in very good financial condition with current assets 3½ times current liabilities. It is true that there are bank loans outstanding, but from the nature of its business a fair-



sized inventory must be carried and moderate bank loans are to be expected.

The $4,000,000 bond issue was put out early this year and the proceeds are being used to increase the production of silk hosiery. Additional facilities will double capacity to 660,000 dozen a year making the company the largest manufacturer of silk hosiery in the world.

No dividends have as yet been paid on the new stock, but it is anticipated that they will be inaugurated before the close of 1922. Large current earnings and the comfortable financial condition of the company would seem to justify as high a rate as $4 a share but of course directors may prefer a more conservative policy in view of the plans for expansion in hosiery and other lines.

Conclusion

At present price of about 104 the $8 preferred stock gives a return on the investment of 7.7%. In view of the fact that earnings over a long period of years have been sufficient to cover preferred dividend requirements on the present

(*Continued on page* 873)

HOW JULIUS KAYSER IS RATED

Element	Qualifications	Rating	Rating No.
(1) Character	Important industry	Good	4
(2) Past Record	Steady earning power	Excellent	5
(3) Future Possibilities	Business growing	Good	4
(4) Management	Shows efficiency	Good	4
(5) Financial Strength	Bank loans small	Good	4
(6) Earning Power	Increasing	Good	4
	Maximum Number of Points, 30.		25

Which is the Best $6 Stock?

Results of a Search for Profit-Making Opportunities

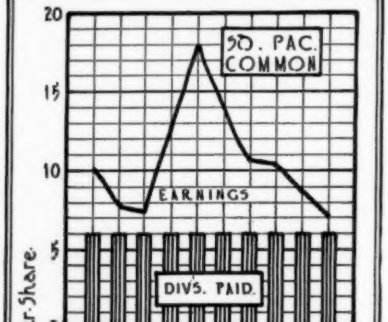
By FRED L. KURR

Note: This is the sixth of a series of articles showing the best stocks in each dividend-paying group. In this issue, the best stocks paying $6 among the public utilities and railroads are discussed. In an early issue will be found an anlysis of the best $7 stocks among the industrials. Later issues will deal with the best stocks in groups paying from $8 to $10.

IN the previous article in this series industrial common stocks paying dividends at the rate of $6 per share per annum were analyzed. In this article, public utility and railroad common stocks paying $6 are considered. A careful combing of the list reveals only four stocks of this class that are in a sufficiently sound position to justify consideration by the investor. They are Atchison, Southern Pacific, Public Service Corporation of New Jersey and Columbia Gas & Electric.

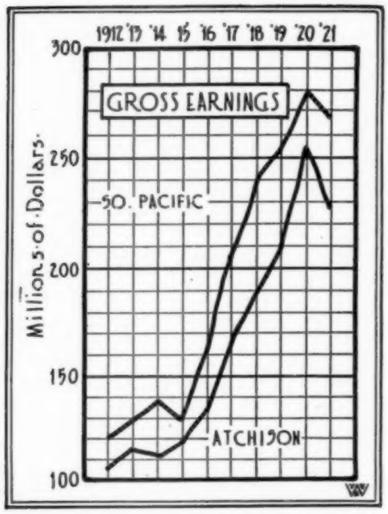
Southern Pacific and Atchison have paid dividends at the rate of $6 per share for a long period of years, Southern Pacific having maintained this rate since 1907 and Atchison since 1909. Public Service of New Jersey and Columbia Gas, on the other hand have only been paying $6 for a short time, the former having increased the rate from $4 to $6 in March of this year and the latter having increased the rate from $5 to $6 in 1921. Despite the comparative newness of the $6 rate a careful examination of the affairs of the latter companies leads to the conclusion that this rate is very firmly established.

Public Service of N. J. earnings are now on a very favorable basis. In 1921 $9 a share was earned on the common and on the basis of earnings for the first seven months of 1922, earnings for the full year should show at least $12 a share. Columbia Gas for the first six months of 1922 earned $6 a share on the common and indications are that for the full year over $10 a share will be shown. As both these companies are in good financial condition it is quite reasonable to presume that a still higher rate can be paid to stockholders.



Market Position

Public Service of N. J. and Columbia Gas stocks, however, have discounted the improvement in earnings by a very substantial advance in the market. The former has advanced thirty-two points from its 1922 low and the latter fifty points. If earnings now being shown could be continued indefinitely both stocks would still have excellent possibilities for further enhancement in value, but there are some very good reasons for doubting that earnings will continue on so favorable a basis. Indications are that we are entering at least a mild period of secondary inflation. Prices are showing a tendency to advance further and this means that public utilities will have higher operating costs with a resultant reduction



of earning power. Public Service of N. J. and Columbia Gas, however, should be able to maintain their present rate even if conditions become much less favorable and the stocks can be regarded as a fair business man's investment. It appears to the writer, however, that they have had the major part of their upward move and that much more attractive opportunities lie elsewhere.

Atchison

Under the MAGAZINE OF WALL STREET system of rating, Atchison, Topeka & Santa Fe Railway is entitled to the maximum number of points—30. The common stock is the writer's selection as the most attractive from both an investment and speculative viewpoint of the railroad and public utility stocks that are paying $6. All through the inflation period, when most of the railroads of the country were showing very poor results and when many were only saved by the Government Guarantee, Atchison was able to show its dividend covered in each year, exclusive of the Government Guarantee. In the past ten years Atchison's earnings have averaged $11.58 per share per annum

HOW ATCHISON AND SOUTHERN PACIFIC ARE RATED

Element	ATCHISON Qualifications	Rating	Rating No.	SOUTHERN PACIFIC Qualifications	Rating	Rating No.
(1) Character	Necessity of modern life	Excellent	5	Necessity of modern life	Excellent	5
(2) Past Record	Large surplus accumulated	Excellent	5	Large surplus accumulated	Excellent	5
(3) Future Possibilities	Steady increase in traffic	Excellent	5	Steady increase in traffic	Excellent	5
(4) Management	Efficient	Excellent	5	Efficient	Excellent	5
(5) Financial Strength	Large cash holdings	Excellent	5	Large cash holdings	Excellent	5
(6) Earning Power	Greatly in excess of dividends	Excellent	5	Hold up well	Very good	4
			30			29

Maximum Number of Points, 30.

THE BEST $6 DIVIDEND-PAYING STOCKS

(RAILROAD AND PUBLIC UTILITY)

	Capitalization			Earned Per Share			Price Range 1922		Present	Yield
	Bonds	Preferred	Common	1919	1920	1921	High	Low	Price	(%)
Atchison	$289,397,000	$124,173,700	$225,397,500	$16.58	$14.03	$14.70	108½	91¾	105	5.71
Columbia Gas	16,813,668	....	50,000,000	4.89	7.98	6.91	114⅞	64⅜	110	5.50
Public Service of N. J.	199,332,024	18,214,400	30,000,000	1.82	5.12	9.19	98½	66	95	6.32
Southern Pacific	463,397,140	....	344,380,906	10.83	10.56	8.93	95⅞	78½	93	6.45

on its common stock on which $6 was paid, so that nearly 50% of its surplus earnings have gone back into the property. At the present time it is in the strongest financial condition in its history and also in excellent physical condition.

A glance at the accompanying graph will reveal the remarkable growth in business this road has experienced in the past ten years and how remarkably consistent this growth has been, every year showing bigger than the preceding one with the single exception of 1921. Surplus available for dividends has also shown an upward tendency and in 1921 despite the falling off in gross $14.70 was earned on the common. For the first seven months of 1922 earnings, allowing for seasonal fluctuations, were only at the rate of $7.45 a share. This should not be taken as an estimate of the full year's earnings as the first few months were unusually poor whereas volume of traffic at the present time is very heavy and almost sure to remain so through the closing months of the year. A careful survey of the situation indicates that Atchison for the full year will show its dividend about twice earned.

It is a pleasure to look at a balance sheet such as Atchison is able to exhibit. As of Dec. 31, 1921 current assets exceeded current liabilities by over forty-five million and the company had actual cash on hand of over thirty-three million. Profit and loss surplus stood at over one hundred and six million.

There is no question but that Atchison has been in a position for some years to increase the dividend rate on the common stock but directors have followed the conservative course and put earnings back into the property. Now that the general outlook for the railroads of the country has brightened with indications of a satisfactory volume of business for some time to come it would seem that some reward for Atchison common stockholders is close at hand. In view of Atchison's financial strength and demonstrated earning power it should easily be able to maintain an 8% dividend rate on the stock. Directors do not meet again to act on the common dividend until December when there would appear to be a very fair chance of the rate being increased.

At present price of 105 Atchison gives a return of 5.71% on the investment and while this is not high it is satisfactory for a security whose dividend is as secure as is the $6 dividend of Atchison. **With the chances very much in favor of an increase in the rate in the near future the stock can be regarded as an ex-**

(Continued on page 883)

Butterick Deserves Better Market Treatment

Poor Market for Butterick in Glaring Contrast to Good Showing Made by Company in Recent Years

By A. T. MILLER

BUTTERICK, for some reason or other, is evidently a step-child of the stock market. Certainly its market action in the past few months is in contrast not only with the general tenor of the market, but with the excellent showing made by this company. Why this stock, therefore, should lag so far behind the rest of the market is difficult to understand.

Directly after the publication of the 1921 earnings which showed a surplus for the stock of $5.23 a share, Butterick, after a long and discouraging period of market quietude rushed forward and reached a high of $34 a share. This happened last Spring. At that time, hopes were entertaned that dividends would be restored, and, in fact, the showing made was such as to justify these expectations. The directors then met and decided to take no dividend action. The result was a letting-up of the stock which precipitously declined to about $18 a share.

Certainly there was nothing in the affairs of the company, despite the failure to declare dividends, to justify this abnormal decline. The reason for it, therefore, must be looked for in its market history. Except sporadically, Butterick in recent years has not had adequate market sponsorship. This can be seen by the rapid recent decline from 34 to 18 in a comparatively small turnover. In fact, in the past few weeks the market for Butterick has been so poor that it has been by no means unusual to see it decline three and four points on a turnover of one or two hundred shares.

BUTTERICK COMPANY (THE)

WORKING CAPITAL

(As of June 30, 1922)

CURRENT ASSETS:	
Cash	$373,695
Accounts receivable	2,088,100
Notes receivable	21,332
Inventories	1,736,948
	$4,220,075
CURRENT LIABILITIES:	
Notes payable	$450,000
Res. for taxes	88,435
Dividends payable on pfd. stock of Butterick Publishing Co.	16,000
Accounts payable	851,060
	$1,405,495
NET WORKING CAPITAL:	$2,814,580
Ratio of current assets to current liabilities	300%
Working capital per share	$19.25
Market price per share	20.00
*Net asset value per share	25.58

* Deducting $94.89 per share for good-will, trade-marks, etc.

This has by no means been encouraging to the small holder of Butterick who trusts to fundamental conditions to improve the position of his stock. Small holders, therefore, who evidently have very little market protection in this stock are warrantedly depressed. If there were something internally wrong with Butterick, its market action would be understandable, but as conditions are it is something which those whose responsibility it is to stand behind the stock cannot be proud of. Certainly if good stocks are to be given the poor protection which Butterick has experienced, there can be little confidence in the market.

Turning now to more fundamental conditions, we find that the financial situation in Butterick is satisfactory. Thus current assets are about three times current liabilities. Its publishing business is holding up well and its pattern business is also proceeding at a satisfactory rate, though the latter has had its ups and downs this year. In the first six months of this year, $2.07 was earned on the stock and last year $5.23 a share was earned. The company should earn over three and perhaps four dollars a share this year—not a bad showing for a stock selling at 20. In the past five and a half years Butterick has earned $15.85, not a cent of which has been paid out in dividends. The company is steadily adding financial strength and this operation is proceeding, apparently unobserved by the financial community.

Butterick stock has a working capital per share of over $19, compared with a market price of $20. Its net asset value is $25.58 per share, without including $94.89 per share good-will, trade-marks, etc., which are, admittedly, of value.

In conclusion, it would appear that Butterick is underrated in the market. It is by no means an investment issue, but is a good stock, as speculative issues go. It deserves better treatment at the hands of the stock market.

Overhauling Your Stock Holdings

More "Switches" Recommended by the Staff of The Magazine of Wall Street

AT more or less regular intervals, the investor should scan his investment holdings with an idea to seeing if he cannot improve his position. The world does not stand still and neither does the stock market. Conditions are always changing. The investor, therefore, if he wishes to make the most of his opportunities, should conform to those changing conditions.

At the present time, there are many good opportunities for a profitable exchange of securities. Some stocks have proceeded furthest along the road toward discounting favorable developments and others for various reasons have been, comparatively speaking, laggards. It would be a good idea, therefore, for the investor to overhaul his list of securities and discard those which seem to offer less attractive investment opportunities in favor of those which offer greater opportunities. Herewith are submitted what appear to be three excellent "switches":

SELL Crucible @ 90.
BUY Endicott-Johnson @ 85.

While trade conditions favor Crucible Steel as it does the other steel companies, it would seem that it has done a great deal toward discounting this improvement. Crucible has sold this year as low as 52 and recently sold as high as 98. At the present price, the stock is already about 80% above the low for the year. On March 16 of this year, the common dividend was passed and has not been resumed since. Recently, it was stated that $5,000,000 additional stock would be offered for subscription at par, or a few points above the market price of the stock—in itself a rather unusual circumstance, probably accounted for by the fact there is a good deal of speculative optimism on this issue.

On more intrinsic grounds, however, it is difficult to see anything to enthuse about with Crucible at its present price. It is true that the industry is making rapid progress and it may even be that dividends may be restored if business holds up next year. However, even in that event Crucible would seem to have already discounted such restoration to a very large extent.

Endicott-Johnson at the present price is more attractive. In the first place, the stock has not had such a speculative run-up as has Crucible. Its upward march has been slow but regular, and its market position indicates that confidence is fully held in the outlook for this company. Contrasted with Crucible which pays nothing, Endicott-Johnson pays $5 a share, which dividend could easily be increased, as the company is earning at a rate of considerably over $10 a share on its common stock. Endicott-Johnson is a very important manufacturer of shoes, for which the demand is steadily increasing. The company is well financed with current assets about two and a half times current liabilities. The company has $3,500,000 in cash. From an investment viewpoint, Endicott-Johnson is much more desirable than Crucible, and for that reason this "switch" is recommended.—E. D. K.

SELL Coca-Cola @ 70.
BUY Computing-Tabulating-Recording @ 73.

Here we have an example of two companies, both in a strong position with good prospects with the advantage, however, rather strongly in favor of Computing-Tabulating-Recording. Both stocks have had very large advances during the past twelve months, though it should be noted that Coca-Cola has had by far the larger advance in the current calendar year.

A more proper basis for comparison, however, is on the intrinsic side. For the first six months of this year, Computing-Tabulating earned $6.22 per share. In the same period, Coca-Cola earned $5.16 a share. In other words, during the same period Computing-Tabulating earned over a dollar more per share than did Coca-Cola. Making a further examination of earnings, the corporation is even more in favor of Computing-Tabulating. Thus this company had several months of poor business during the first six months of the year, notwithstanding which it managed to earn a large amount on its common stock, whereas Coca-Cola was favored with progressively better earnings practically in each month of this period. In short, therefore, Coca-Cola seems to have somewhat less in the way of earning-power than Computing-Tabulating. This is borne out by estimates which indicate that Computing-Tabulating will earn at least $10 a share this year whereas Coca-Cola probably will not earn more than $8 a share.

Coca-Cola pays $4 a share in earnings whereas Computing-Tabulating some months ago increased its dividend to $6 a share. It may be that Coca-Cola will increase its dividend, something which it could do in view of its satisfactory earnings, but Computing-Tabulating is already paying the larger amount so that those interested in receiving the highest possible return on their money would be exchanging a possibility for a certainty when they exchanged Coca-Cola for Computing-Tabulating. The writer does not desire to cast reflections on Coca-Cola which certainly has done well this year but believes, since both stocks are selling at about the same price, that Computing-Tabulating is the more attractive for the reasons given. —A. T.

SELL Davison Chemical @ 51.
BUY Electric Storage Battery @ 48.

Davison Chemical which was characterized a few months ago in this Magazine as a "mystery" stock is one of the most speculative issues on the N. Y. Stock Exchange, and at the price at which it is selling has little to recommend it by way of investment value. The stock pays nothing and very likely will continue to pay at the same rate for a considerable period. Last year, it had a deficit of over $400,000, and while the company is probably doing better this year, certainly is not in a position to consider payment of dividends. Earlier this year, the shares had great vogue in the market on account of possibilities attached to its silica gel process. The fact is that the silica gel process which has been used for a long time in the refining of gasoline can be made in such quantities within a comparatively short time, as to satisfy every requirement of the gasoline industry for a long period to come. Great money-making possibilities, therefore, should not be attached to this process. The company itself is in a good position but its comparative lack of earning-power is, of course, an unfavorable feature.

At this point, it would be well to remark that the main point of interest for investors in stocks is the earnings position of the securities in which they are interested.

Assets are a valuable guide, of course, but the main point is just how much the company is earning on its stock. If a satisfactory answer cannot be returned, the stock should be left alone. It is for that reason that, while otherwise possibly attractive, Davison Chemical is not alluring so far as the investor who would like to receive a return on his investment is concerned. Therefore a switch from this issue is recommended.

A company with a far better established earning-power is Electric Storage Battery which has paid dividends regularly in varying amounts on its common stock since 1902. The company recently divided its $100 preferred stock into stock of $25 par value and its $100 common stock into stock of no par value, on the basis of four shares of new stock for one of the old. The new common stock is paying 75 cents quarterly, or $3.00 a year. The company's business is progressing satisfactorily and it is not at all improbable that the dividend rate will be increased. Even without such increased rate, the stock at 48 is more attractive than Davison selling several points higher and paying nothing.—J. W.

Inquiries on Industrial Securities

Inquiries on Other Securities Will Be Found in Their Respective Departments

AMERICAN CAN

Able to Pay Dividends

A few months ago I purchased 75 shares of American Can common stock which now shows me a substantial profit. Do you believe it would be good policy on my part to take profits now or hold for dividends which I am told are close at hand? A little information as to the standing of the company will be appreciated.—F. L. G., Sterling, Colo.

American Can has an excellent record over a long period and even in 1921, when conditions were unusually poor in the canning industry, the company was able to show $2.77 a share earned on the common stock. Operations have been on a much more favorable basis in the current year and for the first six months business was 20% ahead of the same period in 1921, which should mean a surplus available for dividends on the common for 1922 two or three times as large as in 1921. Earnings the past ten years have averaged 7.51% per annum on the common and as nothing was paid out in dividends, these earnings have greatly added to the value of the stock, working capital having been doubled without any new financing. With working capital now around thirty millions the company is undoubtedly in a position to start dividends on the common at any time. The management is very conservative, however, and in the past there have been many disappointments marketwise on account of the failure of directors to declare a dividend. Once dividends are started the company should be able to maintain them year in year out as it has a very steady earning power. We are inclined, however, to advise you to take your profits at these prices as dividends are not likely to be started at a higher rate than 4% which the present price pretty fully discounts for the time being. Moreover, as already stated, dividend action may be delayed longer than is generally anticipated.

STANDARD MILLING

Advisable to Hold

On your advice I purchased 25 shares of Standard Milling at 120. Would you advise taking profits around present levels of 135?—G. L., Jersey City, N. J.

Standard Milling in the past ten years has averaged $18 per share per annum on the common stock. In the fiscal year ended August 31, 1922, earnings are estimated somewhere between $10 and $15 a share. This is not a remarkable showing, it is true, but the outlook for the current fiscal year is very encouraging and much larger earnings are anticipated. Company has a working capital of eight and a half million and a common stock issue of only $7,410,142. Authorized common stock is $15,000,000 and it is anticipated that a stock dividend will be paid in the near future. In the past the company has paid extra cash and stock dividends and with earnings on the up-grade it is logical to expect that this policy will be resumed. The stock has a very narrow market and may react somewhat from present prices but in our opinion if you hold it for the long pull you will be able to realize still larger profits.

SPECIAL REPORT DEPARTMENT

We have had so many requests for special reports on lists of securities and for complete analytical reports on individual stocks and bonds that we have organized a Special Report Department to handle this work. Charges will vary with the amount of research work necessary but in all cases estimates will be submitted. A complete report on any stock or bond listed on the New York Stock Exchange will be supplied for $25. In analyzing lists of securities definite recommendations are made and desirable switches suggested. This new service does not in any way interfere with the present free service supplied by the Inquiry Department to subscribers which entitles them to a brief report on any three securities.

HIGH-GRADE SECURITIES

A List Selected for the Investment of $100,000 Where Safety Is the First Consideration.

Please furnish me with a list of ten bonds for the investment of $100,000. I desire as high a return consistent with safety, which is the first consideration.

H. H., Cleveland, O.

The following ten bonds we consider high-grade securities. We include in this list two bonds that appear to give a rather high return for a high-grade security, but we put them in this class for the reason that conditions have so improved in regard to both the companies that the investment position of the bond has been greatly strengthened and we believe that this will be reflected in the market for these bonds in the near future, meaning higher prices. These two bonds are the Sinclair 1st lien and collateral 7s and South Porto Rico Sugar 1st mortgage 7s. The list follows:

	Price	Yield
Baltimore & Ohio S. W. Division 1st mtg. 3½s due 1925	93¾	5.80
Armour & Company R. E. 4½s due 1939	91½	5.25
International Paper 1st 5s due 1949	89	5.80
Duquesne Light 6s due 1949	104	5.70
Philadelphia Company 6s due 1944	102	5.88
Chesapeake & Ohio convertible 5s due 1946	98	5.12
South Porto Rico 1st 7s due 1941	102½	6.75
Sinclair Consolidated 1st lien & collateral 7s due 1937	101	6.95
Kingdom of Sweden 6s due 1939	105¼	5.50
St. Louis Southwestern 1st mtg. 4s due 1989	80	5.05

We feel that these bonds would give you about as large a return as can be expected at the present time from high-grade securities. The average yield of this list is 5.78%.

THE MAGAZINE OF WALL STREET.

BROOKLYN RAPID TRANSIT 7% NOTES

Should Do Better

Recently you advised me to switch from Brooklyn Rapid Transit stock into the 7% notes, which I did, paying 83 for the notes and selling the stock for 25. Now that the notes have advanced to 93 is it advisable to sell?—V. T. L., Mount Vernon, N. Y.

We see no reason why you should sell out the Brooklyn Rapid Transit 7% notes even though you have a good profit. B. R. T. continues to show its fixed charges earned with a liberal margin to spare and sooner or later some reorganization plan will undoubtedly be formulated that will take company out of receivership. As we see it any reorganization plan that can be put out should justify a considerably higher price for the notes in view of the fact that there is 28% back interest due. The stock is in a more uncertain position as new money will undoubtedly have to be raised and the stockholders will probably have to subscribe to some new security to maintain their interest in the property.

AMERICAN STEEL FOUNDRIES

In Good Position

I am interested in American Steel Foundries. It appears to me that a company that was able to maintain dividends right through the period of depression ought to be able to pay higher dividends now that conditions are very much better. Your valued opinion is desired.—H. J. K., Clifton, N. J.

American Steel Foundries did not earn anything on the common stock in 1921, but as it was in very strong financial condition it paid its $3 dividend out of surplus. In the current year there has been a distinct change for the better, earnings for the six months ended June 30, 1922, showing $1.89 a share on the common stock. As most steel and equipment stocks in this six months period had comparatively poor reports this is an excellent showing. American Steel Foundries is to be regarded as more of an equipment than a steel company as the greater part of its business consists of the manufacture of wheel centers, bolsters for freight cars and other railway steel casting supplies. With the railroads in a more prosperous condition and traffic heavy the demand for equipment of this kind is going to be very substantial and the outlook for larger earnings for this company is decidedly bright. Financial condition is very strong, working capital being

(*Continued on page 866*)

Building Your Future Income

For the Man With His First Five Hundred Dollars

A Creed for New Investors

I WILL have nothing whatsoever to do with any security of doubtful value, issued by a company not generally known and representing a hazardous industry.

* * * *

I WILL not buy and sell for profit. I will buy and sell, instead, for INCOME, and I will gauge all security offerings, first, by the income they offer; and secondly, by the income-paying resources, record and outlook of the issuing corporations.

* * * *

I WILL entrust my funds, under no conditions whatsoever, to any organization, firm, incorporation, company or individual whose standing and integrity are not vouched for by my banker or some equally impartial and equally reliable authority.

* * * *

BY far the greater part of my surplus funds will be placed in Investment Securities, bought outright. What small proportion I reserve for speculation—for marginal commitments, that is, or commitments in highly volatile securities, I will use with my eyes open and without any illusions that it is a simple matter to foresee immediate fluctuations in security prices.

* * * *

I WILL train my own judgment, by experience, by observation, by study, by frank interchange of views with others, and I will rely upon judgment—logical reasoning, analytical thought, impersonal survey—for my success. I will *never* act on impulse, and I will never act, without personal investigation, upon the advice of somebody else.

* * * *

I WILL keep a cool head, and will follow the general theory that most panics do far more harm in themselves than do the fears which cause panics. Thus, when conditions seem at their blackest, bordering on chaos, even, I shall look for the brighter side; and when everything is rosy and everybody else brimming over with blind optimism, I will trim sails and make ready for a storm. This does not mean that I will cultivate cynicism. It means that I will seek to develop an open mind, a mind without prejudice, in the knowledge that prejudice is an insuperable barrier to success in any enterprise and most particularly in the discriminating investment of surplus funds.

The Lure of Suburban Real Estate

What It Cost One Investor and Why He Banks His Savings Now

By A. W. B.

I BEGAN the practice of my profession in an inland New York city, a busy, prosperous community, where most people were well to do, many were moderately wealthy and all were comfortable who cared to be. Several years ago, just when I began to have a few dollars to invest, the town was invaded by a plausible, well mannered young man from the great metropolis. His errand was to "offer" lots in a real estate development in Brooklyn, New York City.

He was a ready talker. He had provided himself with a fund of illustrative anecdotes, to prove the fabulous increase in values of New York City real estate, beginning with the purchase of Manhattan Island from the Indians in 1626 for twenty-four dollars worth of whiskey, and ending with the existing booms in real estate, along the lines of proposed subways. Needless to say, the property was near the line of a projected subway, and the boom had already hit it. I lived indeed to learn that the salesman's employer was the chief engineer of the boom and was unloading at boom prices, as lots, land that had been but recently bought at farm prices as acreage.

Subtle Flattery

The salesman flashed upon me the names of several "representative citizens" of our town, men of substance and business standing, who had already bought lots from him. I was naturally flattered by the recognition that placed me in the company of these prominent fellow townsmen, and anxious to increase my substance by following in their footsteps, to the position of financial competence which they had gained. I had opened a savings bank account, but four per cent interest seemed to me a slow road to riches. I did not then know, what I afterward discovered, that these men had themselves fallen for the bait held out to "a few representative citizens" of "getting in on the ground floor" by paying for their lots at one-half the prices charged to other and later victims, and were "taking a flier" in New York real estate. I doubt if any of them realized, as the salesman did, what havoc the prestige of their names would work in the finances of their community during the next few years. Still less did I realize that the "flier" these men were taking was a mere gambling venture, on which the hardest head is apt at some time to embark, and one of the means whereby the fortunes of prosperous men are diminished, not increased.

TO ALL INTENDING HOME-BUILDERS

It is as easy to make an unwise investment in real estate as it is in stocks and bonds. And there are just as many sharpers out in the field to "do you."

Before selecting your homesite, read this true story of what one real estate buyer experienced, as he told that story to us.

I listened readily to the tales of the salesman, received from him handsomely prepared maps of the property, showing the streets, avenues, boulevards and parks laid out through or upon the property. I took also a copy of the impressive restrictions under which the property was being sold, guaranteed to insure its future as a high-class residential development, devoted entirely to one-family houses, costing not less than ten thousand dollars, and I promised to give him an answer in a few days. I telephoned to two of the business men whose names appeared on the list of buyers, and whom I knew. They told me that they had "looked into the proposition" and thought it was good. I forgot to ask them whether they had looked at the property, or had ever been in Brooklyn. If I had thought to do so, I would have lacked the nerve, for of course they were business men. They knew what they were about.

The Agreement

The next day the salesman called again, and I signed a contract for the smallest parcel on which the restrictions permitted the erection of a house, two lots, each 20x100 feet. I relied, of course, upon the salesman's advice as to the location of the lots and paid him two hundred dollars on the purchase price of sixteen hundred, agreeing to pay the balance in "easy monthly payments" of twenty dollars per month with interest.

Three months later I took a trip to New York. I planned on the first day of my visit to go and look at my investment, but the day was cloudy, wet and raw, so I put it off until the weather cleared and the streets dried up, two days later. I found the property "improved" as represented, with cement sidewalks, curbs and macadam pavements, a parkway set with shrubbery, the grass well cut, the weeds carefully removed from the streets. This work, I was assured by the resident agent, was all done "at the expense of the company, for the benefit of the property owners." I came away well pleased with my venture. To be sure, there were no houses on or near the property, nor any traffic on the streets, for they were "private." It was, however, but a few blocks to the nearest trolley line and, in the warm June sunshine the future of the property looked very bright.

The company followed up its sale with an active campaign of solicitation, by mail and otherwise, intended primarily, it seemed, to induce me to increase my investment. I bought no more lots, but such was my faith in the proposition, I prided myself on my caution in going into it no more heavily. I did, however, further the plans of the company by talking freely to my friends, acquaintances and patients about my investment and its prospects, and I have reason to know that several sales made in my city during that summer were influenced by my glowing recommendations of the property. By the winter, the company announced that the property was practically sold out, and its advertising and solicitation ceased.

A Startling Discovery

In the following summer I saw the property again. On the edge of the property nearest the trolley were several two-family houses and a few cheap apartments in process of erection. Elsewhere I found the property abandoned to weeds and neglect. Our macadam pavements, consisting of a bare covering of crushed stone scattered on the surface of the ground, had reverted in the spring thaws to their original status of Long Island mud, and the trucking of material for the houses then building had left them rutty roads of ruin. The concrete sidewalks, built by smearing the surface with two inches of concrete, had yielded almost everywhere to the action of the frost and were cracked and uneven. In many places the processes of nature had been aided by the children of adjacent communities who, coming into this wilderness to play, had broken up the crumbling walks into building blocks, for the erection of symmetrical stone forts.

I visited the office of the development company which sold me the lots and inquired regarding these things. As to the two-family houses, the erection of which seemed to me a violation of the restrictions, an officer of the company called my attention to a clause in their deed, which had hitherto escaped my notice, reserving to the company the right to release any lot in the development from any or all of the restrictions enumerated in the deed. He patiently explained to me that certain lot owners had taken advantage of this clause to obtain releases of the restrictions from the company and were now improving their lots with the type of houses for which there seemed to be a demand. In reply to an inquiry as to what such a release would cost, he replied five hundred dollars, but if I wanted to build and arranged with the company to handle the construction, this price could be materially "shaded." I

THE COST OF THE TRANSACTION

Purchase price of lots	$1.600.00
Taxes	132.80
Assessments for street openings and improvements	356.30
Interest on deferred payments	251.60
Incidental expenses, partly estimated	59.30
Total	$2,400.00

(*Continued on page* 862)

Three Interesting Insurance Problems

How They Might Be Solved

By FLORENCE PROVOST CLARENDON

The Problem of a Married Man

I WOULD like your opinion as to just what form of insurance you think would be most suitable for a man of my age and circumstances.

I am 41, have a wife and five children, and carry already life insurance to the value of $3,000, renewable term policy with the Aetna Life Insurance Co. I also carry accident and health policies with the Illinois Commercial Men's Association of Chicago, Illinois. I have besides about $5,000 in securities of different kinds, $1,850 of it being a real estate mortgage on property in the city here. My salary runs around $3,750 per annum and my job is as secure as any government job can be. My balance sheet as of June 1st, 1922, shows a profit and loss surplus of $6,380.93, which includes the above-mentioned securities besides a couple of building lots near the city. I have been considering a 15-year term policy, the straight life policy with disability provision, also the 20-payment life with disability provision. I have also been considering a joint annuity for my wife and myself.

As a reader of THE MAGAZINE OF WALL STREET *I hope to be able to invest and reinvest my savings so that they will grow systematically. Hence, I do not want life insurance as an investment, but more particularly as a protection to my family while I am accumulating an estate.*

I have been approached by an agent of the Prudential Insurance Company of America, whose home office is at Newark, N. J., and the agent claims that his company sells insurance at a lower cost than other companies, which makes me rather suspicious, as they have insurance tables worked out so fine that all companies must find the cost about the same. Would you recommend the Prudential Insurance Company of America?

Do you think I carry enough insurance already, and, if not, what amount and what kind do you think I ought to take on?—I. McL., Montreal, Canada.

I presume that the securities you hold would not suffer depreciation in event of your death but could be readily realized upon at their full value. Nevertheless, the amount available in case of your death including your present life insurance would in all be less than $10,000, and this is scarcely an adequate protection for a widow and five children. I would therefore suggest that you should effect some additional life insurance.

I would not advise your taking a Term policy which gives protection for only a limited period, and does not include cash, loan and surrender values. It is an expensive form, at best—less thrifty than Life or Limited Payment. There is always the possibility that you may not be in a position to replace the term insurance with a policy on a more permanent form later on.

A Joint Deferred Annuity for yourself and wife would be a good investment if it were not that you are more in need at present of immediate protection for your family in event of your unexpected death. An "Endowment at 65," guaranteeing protection for your dependents, and maturing to yourself as an Endowment at age 65 is a good plan, for you thus have family coverage during your productive years, and may personally enjoy the benefit of the endowment fund on attaining your sixty-fifth year—a time when your earning power may have begun to wane, or you may desire to relax your business efforts. This type of policy if taken at your present age, 41, would cost in a participating company about $44 a year for $1,000 of insurance, the premium being reducible by annual dividends. The inclusion of the Disability Benefit, guaranteeing waiver of premiums and a monthly income of one per cent of the face amount of the policy in event of total and permanent disability, would cost about $2.50 additional per annum and would form an excellent safeguard against unforeseen contingencies, which may arise.

While we prefer to abstain from giving any opinion regarding the merits of different companies, we have no hesitation in stating that the company you name—the Prudential Insurance Co. of America—is an excellent institution with the reputation of dealing fairly by its policy holders. Their nominal rates differ from those of the best known legal reserve companies; but when dividend distribution is also taken into consideration, the cost in the final analysis works out about the same as in other first class "Old-Line" companies. The annual dividend is an important factor in determining the true cost of life insurance from year to year, and it is hard to say which of the twenty best companies may give the best results over the period of a policy running for twenty or thirty years.

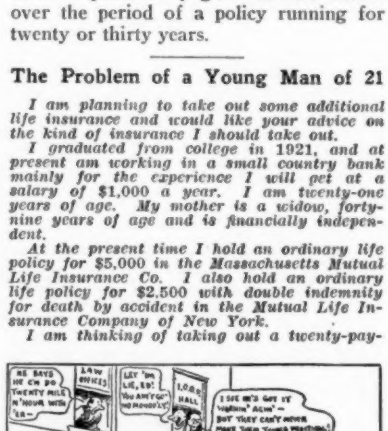
The Problem of a Young Man of 21

I am planning to take out some additional life insurance and would like your advice on the kind of insurance I should take out.

I graduated from college in 1921, and at present am working in a small country bank mainly for the experience I will get at a salary of $1,000 a year. I am twenty-one years of age. My mother is a widow, forty-nine years of age and is financially independent.

At the present time I hold an ordinary life policy for $5,000 in the Massachusetts Mutual Life Insurance Co. I also hold an ordinary life policy for $2,500 with double indemnity for death by accident in the Mutual Life Insurance Company of New York.

I am thinking of taking out a twenty-payment life policy for $5,000 in the Penn Mutual Life Insurance Company, and would appreciate any suggestions which you may make concerning the company and the type of insurance best fitted for me.—G. F. C., Barton, Vermont.



FORGOTTEN PASTIMES
(Kansas City Times)

You have started an excellent thrift program through the policies, amounting to $7,500, you have taken out with two good life-insurance companies.

It is not the province of this Department to suggest the names of any particular life-insurance companies as being preferable to others. All of the best "Old-Line" companies give good service, and the two companies in which you hold insurance are among the best as well as the third company you mention.

At your age, 21, I would not advise an Ordinary Life policy with premium payments continuing throughout life. A 35-Payment Life, taken at your age, would be free from further premiums at age 56 would relieve your later years from the burden of life insurance cost, and the annual premium would be very little in excess of that necessary for the Ordinary Life plan. In a participating company, the annual premum per $1,000 at age 21 on the 35-Payment Life form is about $21.

The Ex-Service Man's Problem

In your issue of August 5, Mrs. Clarendon gives some good advice to holders of War Risk insurance policies. It seems to me, however, she overlooks one of its most attractive forms, namely, the Thirty-Payment Life. The cost is but little more than Ordinary Life and guarantees that as the insured's earning power diminishes with advancing age, protection is indefinitely maintained after payment of the last premium. In my own case, conversion of $10,000 term insurance was made at age 27 to Thirty-Payment Life, at an annual cost of $188.60 per annum of which approximately $10 has been refunded each year in the form of dividends.

The disability benefits pointed out by your Insurance Editor are all too frequently overlooked. I am continually besieged by accident insurance writers who are, or profess to be, ignorant of these clauses, and it takes some little time to convince them that what I want is not large permanent disability sums but maximum weekly indemnity at the lowest cost. Probably to the average man large principal sums for permanent disability look attractive, but the ex-service man contemplating accident insurance will do better to let his War Risk Insurance take care of such comparatively rare instances and apply the premiums to larger weekly indemnities.—R. N. W., Holyoke, Mass.

I note that you converted your War Risk Insurance for $10,000 to the Thirty-Payment Life plan at age 27. This is a good form of insurance and one which I frequently recommend to young men who are seeking protection through private companies.

If you will refer to my letter to Geo. M. H . . . ., published in the July 22nd issue of the Magazine, under the title "Solving Individual Insurance Problems," you will observe that I advised this correspondent to apply for a Thirty-Payment Life policy if he decided to take further insurance with one of the private companies.

The inquiries received by us regarding conversion of War Risk insurance have generally come from men who wish to be advised as to the best *and most economical* form of conversion in the Bureau—a number of the inquiries being from men who are now over thirty years of age. In the circumstances, the Ordinary Life policy issued by the War Risk Bureau seems the best form for conversion,

because it provides for cessation of premiums in event of total and permanent disability *not only up to age sixty, but at any time thereafter.* Thus, the insured under an Ordinary Life policy issued by the Government is only required to pay premiums while he is physically fit to earn a living. Disablement and incapacity to engage in any form of gainful work are so apt to occur around age sixty that a policy including a Disability Benefit such as the War Risk Bureau grants cannot be obtained from one of the regular private life insurance companies. The War Risk Insurance is granted to a special class of policy holders who have participated in war service, and the length of the Disability protective period is not limited because the insurance is in lieu of a pension. It is practically a gift of the people to those who have acted in defence of the country.

The selection of an Ordinary Life policy in one of the regular life-insurance companies is not the most thrifty plan. It is better to select one of the Limited Payment forms when applying for insurance through such channels, because the premiums on such plans will be paid up, and the burden of making payments will have ceased, in old age. While the premiums are somewhat larger than those required on the Ordinary Life plan, the corresponding cash, loan, surrender and dividend returns are all greater under the higher-priced policies. As stated above, the Disability Benefits under all policies in private companies cease to be in force after age sixty.

Accident insurance fills certain needs, and has its place as protective insurance. Although death by accident is proportionately small in relation to other causes, accidents which maim or incapacitate from working occur with surprising frequency. The victim of an accident must feel that there is certain "Balm in Gilead" when he is in receipt of the proceeds of his claim, whether it be paid in lump sums or in instalments. I agree with you, however, that this class of insurance, as well as regular life insurance, best answers its purpose when paid in instalments over a given period.

Points for Income Builders

Meaning of "Marketability" and Other Often Heard Financial Terms

HERE is one of the elementary prerequisites of a good investment—marketability. To produce "marketability" in investments, more than for any one other purpose, stock exchanges were formed and now operate. And yet, far more frequently than is good for the investing public, marketability is completely overlooked.

Marketability, of course, means salability. An investment enjoys high marketability when it is in constant demand at some central exchange, so that the holder can at all times count upon turning his investment back into cash whenever he chooses to do so. It is held to be so essential a feature in a good investment because, as has been said before, to invest money is really only a form of loaning money on call, and unless your investment be fully marketable you cannot count upon getting back your loan when you desire it.

About the best assurance of marketability is for a security to be listed on the New York Stock Exchange. But it does not follow that unlisted securities will, necessarily, be unmarketable. Some of the highest-grade and most highly marketable securities are dealt in in the vast over-the-counter market, which is reviewed every issue elsewhere in these columns.

Appreciation

Occasionally, the financial authorities feel that they must express themselves in highly dignified terms—sometimes, perhaps, to prevent their being too completely understood, or else just for the moral satisfaction of the experience. It is at such times that such a term as "appreciation" is used, instead of the expression "gain in value" which means the same and is a lot easier to understand.

"Enhancement of principal" is another sometimes used synonym for a gain or rise in value.

Blue Sky Laws

Someone whose memory goes further back than ours may know the exact derivation of the term "blue sky laws," which are state laws intended to regulate the distribution of corporate securities.

The object of such laws is to protect the public from the machinations of the fraudulent promoter. Roughly, most of the laws call for a license fee and the filing of certain descriptive information. The commissioners are then supposed to investigate the information given and determine its accuracy. The licenses are revocable.

Blue Sky laws, incidentally, were suggested for New York State during the last previous administration. It was in the midst of the last previous oil boom, when almost anything could be sold, and almost anything was. The demand for such laws reached the boiling point, and made some sort of action imperative. So a Special Bankers' Commission was appointed by the then Governor and was asked to recommend legislation.

The Commission condemned the Blue Sky Law in principle and in practice. In its place, the majority advised a "virulent, independent body" equipped to run down fraud and strong enough to force it out of existence.

While some of us were still thrilling over the idea, the next election came along, and the undertaking was drowned in a sea of politics. About all the State has to boast of now is the knowledge that once, a while ago, "an investigation was made."

Collateral Trust Bonds

Having been reading Professor Lagerquist's book *Investment Analysis,* and knowing that in it he defines in a particularly informative fashion all the major forms of bonds, we looked up his definition of "collateral trust bonds." Here it is:

Collateral trust bonds are those bonds which are secured by other collateral securities (bonds or stocks). These collateral securities may be the securities of the issuing company, its subsidiaries or the securities of other companies. Hypothecated securities of companies foreign to the issuing corporation, other things being equal, are the most desirable form of collateral security. Where the issuing company has had the privilege of substituting other collateral of equal value and the deed of trust has been badly drawn up, the holder of the security has little protection. This fault has been a not uncommon weakness of an otherwise desirable collateral trust bond. When the terms of the trust deed have been approved, unless an examination of the issuing corporation and the corporation whose securities have been hypothecated can be made, it is of little use to examine the security further for a conservative investment.

How Money Grows

Gentlemen: I think a short time ago you had a table showing the amount realized at the end of certain periods—I think from one year to twenty—on savings. We recently had some discussion as to how much $1,000 would mount to if set aside each year for twenty years, with interest compounded. If you happen to recollect the copy of the magazine in which your table appeared, I shall be very glad to have you send me one.—H. G. B., Philadelphia, Pa.

We have not, we regret to say, published any tables covering just the proposition outlined by you, viz., the ultimate total value of $1,000 sums paid into a savings fund each year for 20 years, with interest compounded.

What we have published has been a series of articles showing the ultimate value of various deposits made at end of each year for a varying number of years, with interest compounded semi-annually at the semi-annual rate of 3%, and principal and interest persistently and continually re-invested at the given interest rate.

That you may have the specific information called for in your letter, please let us call your attention to the following:

The value of $1 invested at 4% or at 6% at the end of every year, principal and interest always reinvested, will equal:

At the End of Year	At 6%	At 4%
1	$1	$1
5	5.63	5.41
10	13.18	12.00
15	23.27	20.02
20	36.78	29.77

The value of $1,000 invested in the same way would, at the end of each period shown, amount to just 1,000 times as much as in the above. Hence, if you set aside $1,000 a year, each year, for 20 years, interest and principal compounded at 6%, you would have at the end of the period 1000x$36.78, or $36,780.

If your interest rate be 4%, you would have 1000x$29.77, or $29,770.

How the Corporation is Formed

Securing Outside Capital Without Sacrificing Control

Corporation: Any group of persons treated by law as an individual and having rights or liabilities, or both, distinct from those of the persons composing it.

—Webster's Dictionary.

IN previous chapters we traced the development of the economic system as a whole, gradually narrowing down our study to the corporation, which, as has been said, is the chief unit, the basic unit, in modern business affairs.

Our argument so far has covered the "whys" of the questions discussed—why the economic system exists, why standardization developed, why corporations were formed, and why corporations have developed as they have.

It is now time to go from the "whys" into the "hows"—in other words, from the academic into the practical. We know why a corporation is formed. Now the question is, how is it formed?

A Practical Example

Practical examples make any discussion easier to present and easier to understand. Let's use a practical example here, then—the five bakers we talked about in the preceding chapter. For reasons already shown, we know why these five men decided to form a corporation. Now let's see how they go about it.

As their first step, the five bakers have to determine (1) what amount of business they hope to do and (2) what plant facilities, baking equipment and transportation equipment they will need for the purpose.

Having agreed on the answer to No. 1, above, let it be supposed that the five bakers decide that they need $100,000 worth of plant and equipment, as in No. 2. (Here let it be said that all figures in this and future chapters are used merely to carry out an argument, and are not supposed, in their relation to one another, to represent the proportions that would exist in actual cases.)

Of course, the Five Bakers Corporation will not be able to manufacture and distribute bread with nothing more than ovens and delivery trucks. They will need raw materials—flour, yeast, baking powder, salt, etc.

A careful consultation in this connection reveals that the corporation should start off with not less than $10,000 worth of these materials, either on hand or under contract.

A third problem then arises, viz., how much ready cash the corporation will need for wages and operating expenses in general during the first year. Discussion of this point ends up with $40,000 as the agreed on figure.

We now have our embryonic corporation about to equip itself with:

$100,000 worth of Plant & Equipment.
10,000 worth of Materials and Supplies (Inventory)
40,000 " " Cash.
—Or a total of $150,000.

Procuring the Capital

As we have seen, the five men who are forming this corporation are not men of great means. Had they been, the $150,000 of capital needed might have been raised among them, each one putting up his share of $30,000. Instead, it is necessary to bring in outside capital. The question then becomes:

How much outside capital shall we procure and how shall we procure it?

The reader might say, "Why not capitalize the company at $150,000 (the amount needed), split the capital up into 1,500 shares of par value $100, and sell these shares to the public?" But such action would be detrimental in the extreme.

It would be detrimental because it would offer control of the corporation to the public. Common capital stock in a new corporation must, if it is to find a ready market, carry a voting privilege, one vote for each share. The holder of a majority of such stock begets automatically a controlling vote. Were the five bakers to sell all the 1,500 shares to outsiders, then, a bargain hunter might see the opportunity to secure control through purchasing 51%, might secure control in this way, and then the five bakers might find themselves ousted from the organization they had formed.

Determined to retain control, the five bakers then discuss the advisability of buying 51% of the stock themselves and selling the remainder to the public. Here, again, an objection appears: These five bakers are good friends now, "all for one and one for all." But what guarantee is there that their mutual friendship will continue indefinitely? How sure can they be that one of their number will not at some future time become a dissenter, sell his shares in the open market and, in that way, force the other four to buy his interest in order to retain the controlling 51%?

Retaining Control

We will have to assume, at this point, that one of the five organizers is well posted on corporation matters. For only from one who knows the ropes could the solution of this vexing problem be forthcoming. In such case, the solution might be worded as follows:

"Gentlemen, we wish to retain control in our corporation. Control will be represented in a majority of the stock we issue, or 51% thereof. We need to issue 1,500 shares, so control will lie in 51% of 1,500 shares, or 765 shares altogether, or 153 shares apiece.

"Each one of us owns a private plant, some equipment and some material at the present time. Now let that property, in each case, be appraised by a competent and independent authority. Having determined upon a fair and honest valuation for it, let each individual turn his property over to the corporation, and let us give him in exchange a corresponding amount of stock. For whatever additional stock it is necessary for each of us to own, in order for each of us to have a pro rata share of the lot, let a cash payment of $100 per share in full be required. This will result in ownership among ourselves of 765 shares, or control.

"Now, we wish to prevent this control's being split up; we do not want any one of us, no matter how unlikely it may seem, to be able to sell his stock, and therefore his vote, to an outsider. We wish to insure, beyond all question, the retention of control in this present group.

"To this end, let us organize a 10-year *voting trust,* and let us put all our 765 shares into this trust. This will mean

(*Continued on page 868*)

FIVE BAKERS' CORPORATION

Preliminary Balance Sheet—September 30, 1922

ASSETS:		LIABILITIES:	
Plant and equipment	$100,000	Capital Stock— (1,500 shares of par value $100)	$150,000
Inventory	10,000		
Cash	40,000		
Total	$150,000	Total	$150,000

At That, a Lot Can Be Accomplished in 15 Years

WE showed the "Creed for New Investors" (see page 848) to our own Old-Timer the other day, and asked him if he thought a young fellow around twenty-five, say, who followed the rules conveyed, could expect to attain financial independence at fifty.

"Pshaw!" said the Old-Timer, after reading over the creed, "You're advising Strict Conservatism and Trained Judgment. With those two assets a fellow who starts at twenty-five ought to be independent before he's forty!"

Secretly, we agree with the Old-Timer. But most people don't start toward independence at twenty-five. A good many, as a matter of fact, wait until middle age before they even start saving, much less investing. So, when we make our slogan "Financial Independence at Fifty," it should be taken as applying to the average case. The more enterprising and forward-looking won't have to wait so long.

Public Utilities

Will Public Utility Rates Be Reduced?

The Trend of Court and Commission Decisions on Rate Matters—Are the Utilities Reaching a Stable Condition?

By W. A. SPRAGUE

RATES as established by State commissions bring to the utilities the revenue that pays dividends and interest on their securities. To answer the natural inquiry of the investor in public securities as to the future course of rates, it is first necessary to point out that the same principles of rate regulation apply to all classes of public utilities, in that the rates must be high enough to pay operating expenses and taxes, provide an adequate allowance for maintenance and depreciation, and still leave a fair return on the value of the property used in the public service. Operating expenses, which are the principal factor in determining rates, fluctuate and make revisions necessary from time to time; of more lasting significance to the investor than the possibilities of temporary revisions is the expressed policy of the courts and commissions in dealing with all of the questions in rate making that affect the allowance of a fair return.

Operating Expenses and Taxes

During the past two years or so, the commissions have been inclined to "hedge," so to speak, when estimating what the operating expenses would be, and have neither allowed the probable maximum expenses when the prices of supplies used in operation were rising, nor specified the minimum when prices were declining. For example, in a recent Wisconsin case additions to the operating expenses of an electric company were disallowed, except for labor cost, in the face of declining prices; the Washington commission limited an increase in gas rates to produce somewhat less than what was recognized as a fair return, in view of the fact that the price of oil was decreasing; and in a New York case it was stated that a commission, in estimating operating expenses, may take note that the cost trend of labor and material has ceased to be upward. Somewhat more favorable to the utilities than these recent citations, is another decision of the Washington commission which affirms that a gas company should not be denied a proper return on account of decreasing prices when it appears that the cost of the principal gas-making materials is still high.

Very little haste was displayed by the commissions in increasing rates at the time when such action was most needed, and the same conservative policy—though it worked some hardship on individual companies during the inflation period—will now operate to their advantage and enable them to reap some benefit from decreased costs before the rates are revised downward. **Unless we soon find ourselves in a period of decided secondary inflation, these revisions will be bound to come;** to what extent they will be influenced by other considerations than operating expenses must be determined by further examination of the commissions' state of mind on rates as shown by their rulings on related matters.

The growing tendency of the local and state authorities to tax the utilities out of proportion to their gross earnings and property value gives rise to the question of whether these taxes may not be considered as a part of operating expenses, and compensated for in the rates allowed, or deducted from net income. The commissions are all agreed on the justice of incorporating the local and state taxes in the expenses, but the rulings on the Federal income taxes are not nearly so uniform. The Supreme Court of the United States, however, has recently handed down the opinion that all taxes may be included in operating expenses; in consequence increased taxes will be passed on to you as a consumer, but will not directly affect your interests as an investor.

Maintenance and Depreciation

Maintenance is quite the same with utilities as with other industries and is logically considered as a necessary charge against operating. Depreciation, however, is of a somewhat more specialized nature in the case of the utilities, and ample provision therefor must be made if their securities are to attain a sound basis. Merely to illustrate why this ample provision is so important, let us consider, for example, the kinds of depreciation that take place on an electric light and power property: if only through constant use, a machine wears out—obsolescence; the load on the plant becomes so great that a larger machine has to be installed—inadequacy; or a newer type that operates more economically is designed and has to be utilized to cut down costs—supercession.

In former years, before state regulation came into effect, proper reserve was seldom set aside from earnings to guard against just such contingencies as these. But in marked contrast to that state of affairs, so prejudicial to the interests of the security holders, is the present ruling of all state commissions that a depreciation reserve or fund must be deducted from current earnings, before any amount is available for interest and dividends. Usually this depreciation is figured as a percentage of the fair property value, and varies with different localities and classes of utilities, though a nearly uniform figure may be discerned in each class. These various percentages, which are shown in the accompanying table, represent the result of many years trial and error, and may be considered adequate under the ordinary circumstances of good management and efficient operation. They are fairly representative, though chosen at random from a number of cases in different states.

ALLOWANCES FOR DEPRECIATION
Public Utilities

	Electric (%)	Gas (%)	Street Ry. (%)	Telephone (%)
	3.5	2.5	3.0	6.4
	3.0	3.5	5.0	5.0
	4.0	2.0	3.0	5.0
	3.02	3.5	4.0	6.1
	4.0	2.0	3.5	...
Average...	3.5	2.7	2.7	5.7

Rate of Return

To tap the best source of rate-making authority, let us refer to the report of the Committee on Rates of the National Association of Railroad and Utility Commissioners:

"The reasonable return to which investors are normally entitled is, in the long run, fixed by conditions of a comparative market. That return for which capital will enter an industry in quantities required for the business, must be considered the reasonable return. Anything more than this is wasteful; anything less is restrictive."

A very equitable statement this, and one that has been reiterated in many cases which have been decided within the past few years:

"The rate of return . . . should be fair and just to the company and such as will make its securities attractive to investors when the company is prudently and carefully operated."

"To satisfy demands of justice and reasonableness, rates must . . . leave a profit which compares favorably with profits in other branches of industry, in order to

attract capital necessary for improvements."

Such widespread recognition of the fact that capital must be encouraged to enter the utility field should convey some measure of assurance to the holder of utility securities.

Popular agitation, peculiar local conditions, or lack of judgment on the part of the commissioners themselves, occasionally leads to the setting of rates that do not yield a fair return on the value of the "property used and useful in the public service." In such a case, recourse may be had to the courts by the company affected, even up to the Supreme Court, in accordance with those terms of the Constitution which provide specifically against the deprivation of property without due process of law, the denial of the equal protection of the laws, and the taking of private property for public use without just compensation. The interpretation of these provisions by the courts has been that rates yielding less than a certain percentum on the property value are, in substance, the use of private property without "just" compensation. To arrive at some idea of what per cent this should be it has been held (California) that the rate which the company should be compelled to pay for borrowed money furnishes a safe, though not conclusive, criterion of the rate of profit which will be deemed reasonable. It is further admitted that some allowance must be made for the risk to which the company is exposed, even in determining the minimum rate of return before the rates can be considered confiscatory.

The unanimous opinion of the United States Supreme Court, affirming the judgments of a New York Federal Court, that the 80-cent gas rate prescribed by the statutes of New York is confiscatory, and that the statutes are therefore unconstitutional—is the most outstanding decision of this nature in the past few years. The actual fixing of a satisfactory rate in this as in other cases, was passed on to the public service commission as its legal function. Since this decision was rendered, cuts have been made not only in the relatively high emergency rates of the gas companies in and around New York City, but also in those of companies operating in the cities of Albany, Rochester, Utica, Schenectady, and Syracuse. The cuts themselves are not drastic in any case, and are partially compensated for in the changes from an illuminating to a heat or thermal unit for the quality of the gas. The important fact to be borne in mind is that all utility companies now have the additional bulwark given them by this Supreme Court decision, and have no cause to fear the close approach to the nether border of confiscation which threatened them under many of the old state and municipal rate statutes.

We have seen that the courts and commissions recognize that rates must leave enough return after operating expenses to attract capital for expansion, and must not be set so low as to amount to confiscation. To show what percentage of return has been found reasonable of recent years, a number of decisions were gone over and representative examples set forth in the accompanying table.

RATE OF RETURN ALLOWED ON PUBLIC UTILITIES

Electric (%)	Gas (%)	Street Ry. (%)	Telephone (%)
8.3	7.0	7.0	7.2
8.0	7.8	6.28	8.0
8.18	7.5	8.0	7.0
7.5	8.0	8.0	7.0
7.0	7.5	...	...

Of course, such a broad generalization as shown may be open to criticism, but no matter how many cases are considered, the return allowed seldom falls below 7 per cent. Whether the decline in interest rates will cause the commissions to decrease their present rate of return is difficult to say; their efforts have apparently been to strike a happy mean between the highest rate that could obtain, and the lowest, and maintain that mean constant.

The commissions in fixing rates pass upon all of the previously mentioned points, but they are influenced in their decisions by other considerations, most of which are favorable to the continuance of just and reasonable rates for the utilities. For instance, it is gradually coming to be recognized that a well-managed company providing service at rates lower than the average is entitled to a somewhat higher return than a less efficient one. The Indiana commission has stated:

"A utility which is operated efficiently, and which is giving good service should be allowed a higher return than one which is giving poor service through bad methods of operation."

The New York commission allowed an electric company to charge 7 cents per kilowatt hour where 6½ cents would have yielded a fair return, in view of the fact that the company was very efficiently operated.

Rate Reductions

Many of the reductions that have taken place are not reductions in the proper sense of the word, but merely represent the removal of surcharges granted as temporary measures, the more equitable distribution of charges for service among different classes of customers, or the benefits accruing to those communities served under rates with "coal clauses" attached when the price of coal decreased this past year. These coal clauses have not been set aside in the majority of instances but have been merely rendered inoperative while the price of coal is below a certain level. If the gas and electric companies meet with extreme costs for coal this winter, many with rates containing these self same coal clauses will be fully protected because the clauses have only lost their effectiveness temporarily.

There seems to be very little doubt in the minds of utility operators that rates—except where no increases were awarded—will be reduced to some extent during the next year or so, although many companies would quite naturally prefer to have the present rates remain in effect as long as possible, to recoup some of the losses sustained during the period of highest prices, to make good the deferred maintenance of that period, and to accumulate a surplus against future contingencies. The stronger companies have taken the initiative and have commenced to reduce their rates gradually as business conditions improve. The Philadelphia Electric Company, in following out such a policy, made this statement:

"We are making the reduction because of our expectation of increased business during the rest of the year, the first three months of the year indicating that such an expectation is reasonable. In making this reduction we feel that this is the time to introduce the element of lower costs in production, in the belief that it may serve as a real stimulus for the industrial revival which should be hopefully anticipated by everyone."

The Wisconsin Railroad Commission found, in investigating the electric rates of the Milwaukee companies, that coal and labor costs had decreased to such an extent that a surplus over a fair return existed and consequently ordered reductions to be put into effect.

The cuts in gas rates throughout New York State have been touched upon before.

The encouraging feature about the entire situation is that none of the reductions so far has been severe nor indicative of a lack of understanding by the commissions of the utilities' essential needs. In the case of the electric companies particularly, any reductions will be largely offset by the increased revenue from the new business that is constantly being added to the lines through the determined efforts of the "More Business—Better Business" campaigns.

Conclusion

In spite of the actual rate reductions now in prospect, the general run of court and commission decisions show that the utilities will be permitted to earn a definite return—6½ to 7½ per cent—upon a reasonable value of their property. This property, too, is fully protected by the courts from confiscation through unjust rates and the lack of an adequate allowance for maintainance and depreciation. The growth of a definite regulatory policy on the part of the state commissions and the courts of appeal is due largely to the experience gained through many years of constructive work—and harmful mistakes—in dealing first with the railroads, then with the water and gas companies and finally with the telephone, traction and electric utilities. The fact that a conservative regulatory policy exists is significant both to the speculatively inclined investor and to the old line type, who demands "safety first."

Under a continuation of such sane regulation, the common stocks of well managed and favorably located utilities will gradually creep up to a dividend paying basis, if they have not already done so; the preferred stocks and bonds of other more seasoned companies with established earning powers and dividend records may be favorably compared with any class of sound investments.

Petroleum

The Loss of Mexican Crude

What the Drop in Mexican Oil Imports Means to the Domestic Industry

By BARNABAS BRYAN

DURING the period from January, 1919, to the end of June 1922, stocks of oil and oil products increased by the enormous total of 207,000,000 barrels. Out of the total about 28,000,000 barrels were acquired at three dollars per barrel prices, 45,000,000 at one fifty, 3,000,000 at one dollar per barrel and the remainder with the exception of special contracts such as at Mexia, at two dollars. The actual average has been above two dollars.

Before returning a profit, this oil must bear additional charges, for transportation from the fields, for the investment in tankage, for storage, for interest, for evaporation losses and deterioration, for insurance against fire loss and for overhead charges. **If sold today complete, for less than three dollars per barrel, it is doubtful if the entire operation would show a profit.**

The storage oil, as well as other phases of the business, is carried on for a profit and it is therefore of interest to know just what is the prospect of a return on this enormous investment. To really know, would require a complete, detailed analysis of the situation as suggested in the issue of September second under the title: "Saving the oil industry from costly errors," but certain facts are sufficiently evident to give us some important indications.

Mexican Imports

Who will dare to predict Mexican production during the coming year? While the little remnant of the old fields which have not yet gone to the stripping basis are being pinched in to prolong their life and while the estimates of the appearance of salt water in the fields were made with surprising accuracy, there is very little basis of experience with which to estimate how much present drilling will prolong production through the finding of small high spots such as that recently opened in Cerro Viejo. Present production is at the rate of 143,000,000 barrels per year, but whether this can be maintained as high as this figure or will drop below 100,000,000 is a matter of speculation.

To read the weekly reports of new drilling in wildcat areas in Mexico as published in the trade journals, is to be discouraged as regards immediate new discoveries of importance, while the failure to reach an agreement with the Mexican Government is greatly retarding the speed of new work. Even if found in the immediate future a new pool away from the proven area would require many months before the oil could reach the market. **During the coming year we must almost certainly rely on the old fields for whatever production is attained.**

Photo by Ewing Galloway

An Oil Well in Chinampa, Mexico, Three Minutes After the Oil Began to Spout

Cheap Mexican oil has created a market of 55,000,000 barrels per year foreign to the United States. This market must be satisfied. Any part of its requirements which do not come from increases in certain other fields must be supplied from Mexico. Venezuela may contribute a part of the loss, the Argentine may increase its production slightly, Peru may produce a little more, while Persia may help to replace the 16 million barrels which has been crossing the Atlantic, but these sources are not likely to account for more than 15 or 25 millions of barrels. Thus the imports to the United States may be reduced to a matter of 55 million barrels unless an unexpected discovery is made almost at once.

American Production

Of the present American production of 1,498,000 barrels per day, those pools comprising approximately 1,250,000 barrels per day have reached the age where their normal composite decline will be less than twenty per cent per year unless drilling is artificially restricted, while the remaining 248,000 barrels will decrease at a more rapid rate, probably fifty to sixty per cent. Thus the present pools under normal conditions without extensions will probably decrease to about 1,112,000 by the end of a year from today, with an average for the year of 1,300,000 barrels per day, which is 474,000,000 barrels for the year.

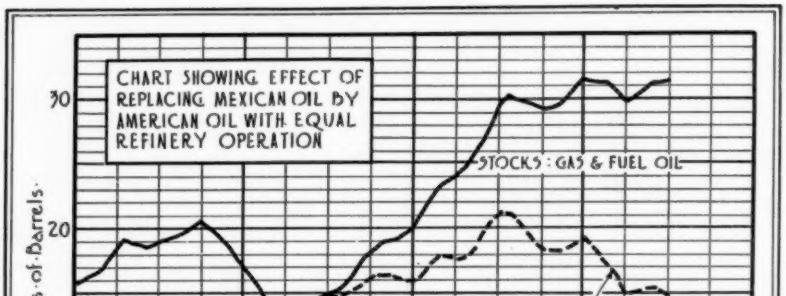
Assuming a maximum consumption of 640,000,000 barrels, which is merely an optimistic surmise, America must find new production to the extent of from 75,000,000 to 100,000,000 barrels or draw on stocks. This is the equivalent of from 250,000 to 300,000 barrels per day. What price of oil will stimulate production sufficiently to procure this new discovery?

Some quotations from the news of the past few weeks will be of interest in this connection. "Humphreys opens new pool at Kosse—10,000 barrel Trinity sand completion—there are fifteen derricks going up around the various locations—Line from Mexia to Kosse—an eight-inch line to connect with the main pipe-line system"— "New pool north of Currie—well started at 4,000 barrels"— "New pool opened in Louisiana by completion of well flowing 3,000 barrels, 30% salt water"— (This is the way El Dorado started)— "One thing is evident—Mexia pool is due for some interesting developments during the months to come—will cause deeper drilling of all the smaller producers to the new pay horizon"— "Osage land sale nets total of $10,887,950.00—a well in the Osage rated at 10,000 barrels initial flow and

more flush completions in the Bristow district"— "Production war threatened in the Salt Creek, Wyoming field."

Whenever the large companies choose, Wyoming production can be greatly increased, even though this is poor policy from the standpoint of the ultimate yield of oil from the fields. Salt Creek production is now quoted at 70 cents per barrel. Whenever the price of oil on the east coast passes two dollars and a quarter for fuel-oil grades, it can be brought from California at a profit to meet the demand in New England created by oil from Mexico. With these conditions and prospects, how can oil hope to reach \$2.50 or even \$2.00 without bringing on another period of overproduction with a further increase in stocks.

When the drop in the production of Mexican fuel oil makes itself felt throughout the trade, there will be a profound difference in the market situation. American oil. Starting at the middle of 1920, when Mexican imports suddenly increased and assuming that two million barrels of the Mexican oil run was replaced by two million barrels of American, the dash-line shows stocks of gas and fuel as they would have been. Assuming that four million barrels per month of Mexican had been replaced by four million barrels of American and translating the result into stocks we get the dotted line, which shows that in the beginning of 1922 the refineries would have had to increase their operation to meet the demand for fuel oil, while the gasoline produced would have produced a glut. But American oil gives more gasoline per barrel than Mexican by between two and three times, which shows, that if Mexican imports decrease as much as seems probable, we may have to overproduce gasoline to get fuel oil to satisfy the demand. Thus fuel oil may become



Heretofore, gasoline has been the one product which has crowded the output of crude. With a reduction in imports we will still see the vast market created by Mexican fuel oil waiting to be filled. The industry will feel the new factor of a fuel price which may even pass the price of crude. The refiner will feel the difference through the emptying of his fuel storage and a profit from that product which has been his worst burden. **The loss of thirty millions of barrels of fuel oil per year would empty fuel-oil storage in a year.**

Even if we replace Mexican oil by the American product there will still be a shortage of fuel oil. Mexican oil carries eighty per cent or more of fuel oil whereas average American carries less than fifty. The accompanying chart is interesting in this connection as showing what may be in store for us. The curves are computed by assuming that the same amount of oil was refined, that consumption remained as existed and a part of the crude run was changed to average the lead horse of the team, with a price above that of crude, and sufficiently high to gradually reduce consumption.

As this state of affairs manifests itself the whole industry will take on a more healthy tone. With gasoline remaining at relatively the same figures and other products following their normal course, every ten-cent advance in the price of fuel oil will justify a corresponding advance of six or seven cents per barrel in crude. This will be the transitional stage which will last until conditions in the coal industry become normal and fuel-oil demand is able to adjust itself to the new prices. Then the prices of fuel and gasoline will pull together for a period of sane normal prosperity of the industry. The danger of the situation is that this fuel demand will carry prices to a point of inflation, followed by another glut and a succeeding deflation.

One of the peculiar points of the Mexican situation is that the industry may experience the anomaly of maintaining a high percentage of its income in spite of the large loss of production. During the time since oil tankers were released from war service, Mexican crude has been thrown on the market for what it would bring, just as if there were a boundless supply. The American market has been killed and many millions of dollars were lost to the industry in Mexico as well as in the United States, just because oil which was costing a few cents to produce was thrown on the market without including in its selling price a proper amount for amortization and depletion in the Mexican fields. It was just another example of the blind, ruthless destruction of natural resources which has characterized this country's development.

But now that salt water has spoken in no uncertain terms and the rate of production is limited, the price has advanced to a figure more nearly approaching the value of the oil. The Mexican companies are at present learning the meaning of price, with a degree of pleasure which should mean that even though more pools be found, there will be no further flooding of the market. During the coming year we may witness a reduced production sold at a greater ultimate profit (??) simply because 90,000,000 barrels of oil sold at \$1.00 to \$2.00 per barrel is a more profitable operation than 200,000,000 barrels sold at 25 to 50 cents per barrel.

In spite of the fact that the huge stocks in the United States must be held for an indefinite period before their cost can be realized, the American industry is likely to see a period of prosperity, for it will soon be in a more normal condition as the fuel-oil demand passes ahead of the supply. It is as if the industry had been carrying a load of fifty millions of barrels of fuel on its shoulders, while in the near future it can use this wasted energy for constructive purposes.

In the long view these stocks are a wonderful asset, especially to the companies owning them, for they guarantee the stability of the refining industry and the profits to be made through retail distributing systems. They mean that in spite of any mishap to production a considerable period of safety exists during which a new search for production can be made, but in themselves they are not a stabilizing influence on the price of crude, for the only way their enormous investment can make a direct profit is in a varying price. Today they are a threat of rising prices to the point of their cost, in spite of the fact that such a price would bring a flood of overproduction.

Such is the picture as it appears with partial knowledge of the underlying facts. What would it be worth to the oil companies to know these conditions and figures with a degree of accuracy justifying the investment of money in quantity? What would it have been worth to the bankers whose money financed these huge stocks of oil, to have known the truth six months to a year ahead? What would it be worth to the public in reduced prices could our oil statistics be generally known six months before the summer market which drives up prices? The facts are easily obtainable if they are worth the price.

Inquiries on Oil Securities

Inquiries on Other Securities Will Be Found in Their Respective Departments

TEXAS CO.

Strong Cash Position

I hold a few shares of Texas Company stock purchased at somewhat lower prices for investment. I would like to have a brief statement of the present position of the company and whether you regard the stock attractive to hold as a permanent investment?—J. T. R., Lockport, N. Y.

We do not believe it a good policy to regard any common stock in the light of a permanent investment as conditions are always changing and a stock that looks like a good purchase now might look entirely different in twelve months time. At the present time Texas Company is in a very good position. It is strong in cash in spite of the fact that it paid off $5,000,000 notes March 1 and $22,700,000 August 1 of this year. This year has been a very successful one for the company especially in the gasolene department. Over 75,000,000 gallons of gasolene were put into storage tanks during low crude oil prices in 1921 and held until the 1922 summer demand brought high prices so that a very handsome profit was realized. Another favorable factor is that Gulf Coast crude has not participated in decline of domestic crudes which started two months ago. Texas Co. is one of the largest producers of Gulf Coast grade. This company has one of the best-rounded organizations of any oil companies being a producer, refiner and marketer. Total production in the United States is about 75,000 bbls. daily of which 75% is in Texas and Oklahoma. It owns large reserve acreage that should enable it to steadily increase its production for years to come. The big falling off in Mexican oil production is a favorable development as it naturally enhances the value of American producing properties. We regard the stock as a good business man's investment and believe it advisable to hold for higher prices.

KANSAS & GULF

Market Action Disappointing

Unfortunately I hold several hundred shares of Kansas & Gulf Co. I say unfortunately, as I purchased this stock when oil stocks generally were at a low level and in spite of the big advances that nearly all the good oils have had this stock actually shows me a loss. Is there anything the matter with the company and do you advise holding or switching into some other stock that has a better chance of going up in this bull market?—M. C., Clinton, Mo.

Kansas & Gulf owns some good oil leases in Kansas, Oklahoma and Louisiana from which it is producing about 5,500 barrels of oil daily from 352 producing wells. The company's capitalization is fairly large, however, and it has not been able to show large earnings for the common shares. Capitalization consists of $3,750,000 serial 8% gold notes due 1924-27, $327,000 Southern Oil Corp. 1st mortgage 6s and $14,122,140 stock of a par value of $10. For the first four months of 1922 earnings were at the rate of about fifty cents per share per annum on the stock. Balance sheet as of Dec. 31, 1921 does not show a very strong financial condition cash on hand being only $114,197, as compared with $606,000 the year before. The company's drilling operations this year have been fairly successful. This company has some possibilities but with earnings not very large and financial condition none too strong early dividend action can not be expected. In our opinion Skelly Oil which is showing good earnings and is in strong financial condition is the more attractive speculation.

MARLAND OIL

Favorable Development Work

I am the holder of 100 shares of Marland Oil which shows me a fair profit. If the company can maintain its present dividend rate of $4 per share I would prefer to hold the stock instead of taking my profit as at present price of 40 the return is 10%. Can you tell me how the company is doing and possibilities of maintaining the dividend?—T. K. G., Sussex, N. J.

Marland Oil stocks have advanced largely because of the success of the company in opening up new oil-producing properties in the Osage and other Oklahoma districts. Production of oil in 1922 is likely to reach four million barrels, as compared with only 2,300,000 barrels in 1921. Production at present is about 18,000 barrels a day and the company is continuing its aggressive development campaign and is now drilling 75 wells in northern Oklahoma in proven territory. Through subsidiaries it holds about 200,000 acres in Oklahoma of which 70,000 are undeveloped. All domestic production is run through its 300-mile pipe line to its Ponca City refinery which has a capacity of 15,000 barrels daily. Earnings at the present time are running at the rate of $550,000 monthly before reserves. Capitalization consists of $8,170,000 bonds and 843,569 shares of stock of no par value. Financial condition is excellent, balance sheet as of July 31, showing current assets of $7,900,000, as against current liabilities of only $1,743,606. We regard the stock as an attractive oil speculation and the outlook at the present time indicates that the dividend can be maintained.

SKELLY OIL

Producing 11,000 Barrels

I have been advised to purchase Skelly Oil. If not too much trouble would like some information in regard to this company. Do you regard it as a promising speculation?—G. O. S., Dayton, O.

Skelly Oil at the present time has a settled production of over 11,000 barrels a day from 605 wells principally located in Oklahoma. It has a large reserve acreage that should enable it to gradually increase this production through development work. It has two refineries and four casing head gasolene plants, 380 tank cars and large storage facilities. The company is in very strong financial condition with no bank loans. For the first six months of 1922, net earnings were $1,100,589, but this was after deducting $609,769 for depreciation and $929,265 for depletion reserve. Net earnings in July, before deducting depreciation or depletion were $589,264, even though crude and refined oil prices were cut that month. This is at the rate of nearly $3.50 a share on the stock before deduction for depreciation and depletion. Company is now storing in its tanks between 6,000, and 7,000 barrels daily to hold for higher prices. At present price of about 10 we regard the stock as an attractive oil speculation.

SIMMS PETROLEUM

Earnings Fairly Good

Can you furnish me any statement of earnings of Simms Petroleum and your opinion of this stock?—M. A., Brooklyn, N. Y.

Simms Petroleum Co. reported for the six months ended June 30, 1922, net income after fixed charges and depreciation of $821,233. Operations during the last half of the year will not be as profitable, due to the cuts which have been made in the price of oil. The stock can only be considered as an oil speculation, its value, dependent on the ability of the Simms management to continue oil production either from their present holdings or undeveloped acreages. However, at around present price of 9, we regard the stock favorably as an oil speculation, as the financial condition is good and production is holding up well being about 5,000 barrels a day. There are 685,680 shares of stock outstanding and net quick assets are equal to $4.81 a share.

PACIFIC OIL

Potential Possibilities

I would thank you to let me know about Pacific Oil and whether it is a desirable purchase at present price of 58⅛.—S. M. Norfolk, Va.

Pacific Oil has great potential possibilities but it must be considered from the long pull standpoint. Based on its present operations it would seem that the present price is high enough, but the company has such a considerable amount of undeveloped oil lands that the situation could easily be changed by the development thereof and, as a long pull speculation it is not unattractive. At the present time, we consider that Royal Dutch selling at around 58 is in a more favorable position. This is one of the strongest oil companies in the world, having possessions in all quarters of the globe. It gives a higher yield than Pacific Oil stock and we consider it a better purchase at this time.

Mining

In What Position Are the Metal Shares?

A Comparison of the Price of the Leading Metals With the Price of the Leading Shares of the Metal Group

By C. S. HARTLEIGH

WE have heard a good deal about the wonderful future for copper during the next five or ten years, and in fact all of the common metals are slated for more than average demand during a period of post-war reconstruction in Europe, as soon as European countries are in a position to buy; and when industrial progress at home has entered the phase that is to involve active super-power development, electrification of transportation systems, and other manifestations of advancement that are likely to increase the demand for the metals. Not only must the damage of the war be repaired, but the nations must make up for time lost during the period of hostilities. All of this is the usual long-pull bullish argument to show that mining companies have something good coming to them in the next few years, and no doubt it is true in a general way.

It is frequently pointed out by those who discuss securities, that the market price has a tendency to discount the future, anywhere from thirty days to six months in advance, and particularly when the resumption of a dividend, or an increase in the dividend, is likely to deserve consideration. Several months ago all this was reviewed frequently, especially with regard to the coppers, and the discussion has become a habit, without regard for the fact that the copper shares have enjoyed a considerable advance from their extreme low levels, and that in some cases the advance has already discounted a fair dividend, with the actual resumption of such dividend not yet in sight. The realization of this situation has been the cause of the rather sluggish action of many of the leading copper shares during the past two months, although it must be admitted that some of them have made very fair gains in the eyes of long-pull traders who view the situation with reasonable patience.

Where there is doubt as to just how large a dividend has been discounted by the rise in the price of a stock, or when there is a possibility of locating one or more issues that may be out of line with the general advance, it is sometimes instructive to make a comparison of the behavior of several issues representing the same industry. With this idea in view the accompanying table of prices has been prepared. It sets forth, in most cases, the high price of 1919, the subsequent lowest price, and the quotation as of September 15, 1922, with calculations to show progress made by the individual stocks. A comparison of this kind must not be taken too seriously, for it does not take into account many important financial and industrial conditions with regard to the individual companies, nor does it allow for local conditions and possible individual recuperative powers.

It will be noted that the average recovery of 14 coppers amounts to a little more than half the range from the extreme low to the 1919 high, but that some have advanced considerably more than the average, and others would be regarded as out of line low, and correspondingly attractive if all other conditions were equal. Obviously, those that have been consistent profit earners in the past, and are still selling relatively low, are to be regarded as the most attractive. In this connection it is interesting to note that such recognized leaders as Anaconda and Utah have advanced less than the average, and that Cerro de Pasco and Inspiration are distinctly out of line on the attractive side. According to this comparison the laggard is Granby, which would appear especially attractive if it could be trusted to duplicate some of its past performances. From all present accounts, Granby will give a good account of itself in due time.

Chile, Kennecott and Miami appear to be in the lead, and their position seems to reflect certain outstanding facts, namely, the large ore reserves and low operating policy and unbroken dividend record of the last named. Of the lower-priced coppers, Nevada and Ray, the divergence is no doubt partly due to the development of the large body of high-grade ore in the property of the former, and also to the fact that it has been more frequently referred to in connection with the copper merger discussion.

Copper Metal Prices

In discussing the relative position of copper share prices, it is of interest to compare the behavior of the market price of the metal during a corresponding period. For example, during 1919 copper metal was quoted as high as 23.5c a lb., subsequently descending to 11.5c, and later recovering to 14c, at which price it is now currently quoted. These figures indicate that the market price of the metal has recovered less than 21% of its decline, whereas the average price of the copper shares has recovered nearly 52%. **Therefore, on the basis of metal price as a comparison, it is apparent that the copper share market is well ahead of the copper market,** or, to put the matter in another light, the share prices are looking well into the future, or maybe forecasting considerably higher metal prices. Again, if we should consider the extremely high price of 36c a lb., which was reached in 1917, our percentage recovery for the price of copper would be little more than 10% of the total decline. However, as 36c was an unusually high price, obtaining under abnormal relationship of supply and demand, we would probably be overworking our metal statistics should we use this comparison in trying to show that copper share prices have anticipated copper metal prices to the extent that the comparison would indicate.

During the past few weeks the market price of copper has been firm at 14c, and only very small amounts have been sold below this figure. Domestic business shows improvement, and foreign business has been fair. The largest consumers seem to be satisfied with the price, and appear more disposed to take on supplies than heretofore, although efforts on the part of producers to sell the metal as far forward as six months have not met with success. Comparatively little second-hand copper has been available, and whatever was offered below producers' prices was quickly absorbed by consumers. Relatively heavy domestic consumption has been in progress during the past two months, although deliveries in August showed a slight falling off, no doubt on account of interference with transportation. A temporary decrease in buying may be attributed to some extent to present fuel and labor shortage, resulting in higher wages. Nevertheless, several important manufacturers of copper products, particularly wrought metal, have sold their production for the balance of the year, and in some cases well into the first quarter of next year.

On September 1st, stocks of refined copper were estimated at 300,000,000 lb., of which about 170,000,000 lb. were in the hands of the Copper Export Association, leaving about 130,000,000 lb. available for domestic consumption. Refined stocks were reduced about 30,000,000 lb. during August, and refined production for the same month is estimated at 120,000,000 lb.,

or about 10,000,000 lb. less than in July, so that it is fair to assume that the statistical position of the metal has improved slightly during the past month. On the other hand, imports have been increasing slightly, and it is understood that considerable copper has been accumulated in South America. Perhaps the most important unfavorable development for copper companies during the past month is the increase in cost of production owing to the difficulty in obtaining skilled miners and common laborers. In some districts miners' wages have been voluntarily increased about 10%, in an effort to prevent the further withdrawal from copper mining camps to other industries where higher wages have been offered.

The uses of copper continue to expand, and the quantity consumed by established industries continues to increase. It is reported that about 100,000,000 lb. of copper will be utilized this year in the manufacture of automobiles in the United States. This is 30,000,000 lb. more than the automobile industry consumed in 1921. Copper finds another important use for building purposes, and there has been a remarkable increase in the demand from this quarter during the past year.

However, no matter which way the copper market is regarded, it must be apparent, that on the average, the copper shares have by no means been slow to discount the improvement in the metal, at least to a very considerable degree.

The Lead Shares

A similar comparison of lead share prices indicates that they are in quite a different position than the copper shares. It will be noticed that National Lead and Lead, Zinc & Smelting preferred have advanced well beyond their high prices of 1919, whereas the market price of lead, at around 5.9c. a lb., has recovered only 36% of its 1920 high price, and only 23% of the peak price of 1917. St. Joseph Lead and Federal common have also advanced relatively further than most of the copper shares. **The comparatively greater advance of the lead shares indicates that they have either over-discounted the future to a considerable extent, or that there is something unusually promising ahead of the lead industry.** The advance of some of the lead shares, more particularly National Lead, is a surprise even to many of the insiders who are thoroughly familiar with the company's operations. Many of these insiders began taking profits on their stock at several points below the present market price, and they are somewhat perturbed over the fact that the general public seems to know more about the company's affairs than they do themselves, or at least, the public has more confidence in the company's earning ability during the coming year. Although it is admitted that the company will have a good year, and will do a very large business in white lead, it is not expected that the earnings will be extraordinary.

In view of this progress which has been made by the lead shares, outstripping the corresponding advance in the market price of lead, it is fair to assume that the best opportunities in this quarter have gone by, and that although further discounting is to be expected, as industrial recovery proceeds, it will be necessary to use greater caution and discrimination in purchasing these shares from now on.

Zinc Shares

On the same basis of comparison, **the zinc shares appear to be in a much more promising position than either the copper or the lead shares.** It will be observed that most of these issues have recovered only about one quarter of their decline from past high prices. Furthermore, the metal itself, at the current price of 6.4c. a lb., has recovered only 38.4% of its decline from the high price of 1920, and only 9.2% of its decline from the extreme peak price of 1915. It is perhaps unreasonable to lay too great stress on the latter basis of comparison, as the peak prices of both zinc and copper during the early part of the war, are not likely to be duplicated for some time come.

In considering Butte & Superior, it should be pointed out that its recovery of 76.3% of the decline from the 1919 high price is not a fair basis of comparison, for during the period in which these prices were registered, the company was under the disadvantages of impending serious litigation, and that a fairer basis of comparison would be its recovery of 23% from its 1916 high price, although this is perhaps leaning too far in the other direction. In any event, the company's past record during prosperous times should be remembered, as well as favorable underground developments during the past few years, and the fact that the company is now free from its embarrassing litigation. It is unnecessary to point out that the shares of such a stable organization as New Jersey Zinc should be considered attractive under present prices and conditions.

MINING SHARE AND METAL PRICES

COPPERS: Stock	1919 High	Low	Sept. 15, 1922	Total Range	Points Recovered	% Recovered
Anaconda	77⅞	30	54¼	47⅞	24¼	51.7
Cerro	86¼	39¾	63⅛	46½	23⅜	50.2
Cal. & Ariz.	67½	23	40¾	44½	17¾	39.9
Chile	29¼	7¾	24	21½	16¼	75.6
Chino	50⅞	16⅜	30½	34½	14⅛	40.9
Granby	80	15	32	65	17	26.1
Greene	47½	15	32	32½	17	52.3
Inspiration	69¾	28	41⅛	41¾	13⅛	32.0
Kennecott	43⅛	14⅝	36¾	28½	22⅛	77.6
Magma	52	15⅝	34⅜	36⅜	18¾	51.5
Miami	32¾	14⅛	29½	18⅝	15⅜	83.6
Nevada	21⅞	8	16⅝	13⅞	8⅝	62.2
Ray	27½	10	15⅞	17½	5⅞	33.5
Utah	97½	41⅛	69⅜	56⅜	28¼	50.1
						Av. 51.9
LEAD:						
Nat'l Lead	94½	63½	105	31	41½	133.9
St. Joseph	17⅞	10	16	7⅞	6	76.2
Federal	16½	5	14½	11½	9½	82.6
Federal Pfd	44¾	21	60½	23¾	39½	166.3
						Av. 114.7
ZINC:						
Am. Zinc	29	5¾	18	23¼	12¼	52.7
Butte Cop. & Zinc	17	3¾	7	13¼	3¼	24.5
Butte & Superior	37½ *105¼	8	30½	29½ 97¼	22½	76.3 23.1
Callahan	23	3¾	9½	19¼	5¾	29.9
New Jersey	300	110	155½	190	45½	23.9
						Av. 38.4
SMELTERS:						
Am. Smelt	89¾ *123¾	29¼	64⅜	60½ 94½	35⅛	58.0 37.2
U. S. Smelt	78¼ *81½	26	43	52¼ 55½	17	32.5 30.6
						Av. 39.6
Int. Nickel	33⅞ *56¾	11⅛	17⅜	22¾ 45⅝	6¼	29.7 14.8
METAL PRICES:						
Copper	23.50 †36.00	11.50	14.00	12.00 24.50	2.50	20.8 10.2
Lead	‡9.25 †12.25	4.00	5.90	5.25 8.25	1.90	36.2 23.0
Zinc	‡9.85 §27.50	4.25	6.40	5.60 23.25	2.15	38.4 9.2
Nickel	‡43.00 †55.00	29.00	36.00	14.00 26.00	7.00	50.0 27.0

* 1916 high. † 1917 high. ‡ 1920 high. § 1915 high.

The Smelting Shares

Both smelting companies' stocks must be regarded as in a favorable position in view of the gradual recovery of the mining industry. Not only should it be observed that the percentage recovery of these shares has been moderate up to date, but it must be remembered that a considerable portion of the earnings of these companies is derived from the smelting of custom ores from innumerable mines scattered throughout the United States and Mexico, and that expenses and profits are assured from this class of business, regardless of what the ore producer may make or lose on the material he delivers to the smelter.

TRADE TENDENCIES

(*Continued from page 830*)

ply of miners has yet to be solved. Wages in Arizona were recently advanced 10% and it is practically certain that a generally higher scale of pay, and consequently increased production costs, will prevail before working forces are recruited sufficiently to resume production at a normal rate.

Meanwhile, the restriction of output has placed the industry in an excellent position to benefit from the greater activity of demand which appears to be in prospect. Currently, export demand for American copper has been less active on account of offerings of foreign metal at slightly better prices. Domestic consumption is, however, likely to expand shortly and quotations for the red metal will undoubtedly be marked up fractionally on the next buying wave.

MOTORS

Seasonal Decline in Sales

Although sales of passenger cars are being effected through the expenditure of greater efforts than in the earlier months of the year, this is to be expected as a natural consequence of seasonal influences. In fact, demand for motor vehicles, as expressed by monthly production figures, is holding up surprisingly well and the usual fall and winter slump is likely to be greatly modified this year. Output of 272,000 motor vehicles for August makes this the second largest month's production in the history of the industry, June being first with 289,000 cars and trucks. While it would seem that production in the current month will drop below that of August, there has as yet been no indication of material curtailment, unless falling off in the industry's demand for steel at the steel mills be accepted as an index of slowing down.

No further general price revisions appear to be in prospect previous to the annual automobile show which will be held early next year. While a prediction of price developments at that time may be somewhat premature, it may be suggested that further concessions might well be granted in order to stimulate spring business. In the meantime, such readjustments as may be announced by individual makers would appear to be more in the nature of an evening up process than forerunners of new schedules for the entire industry.

Earnings of the motor companies on the whole should continue to be satisfactory since the recent price cuts have probably been compensated by economies in operations. The extent to which accessory and parts manufacturers have benefited from prosperity in the automobile industry is evident in recent earnings statements and, in one or two instances, restoration of dividends.

TIRES

Industry Still Unsettled

Production of tires in the Akron district during August closely duplicated, or may even have exceeded the July record. Output for September and October should show comparatively better results than those obtained in corresponding months of other years as demand continues at a high rate. A gradual tapering off in the rate of production is, of course, to be expected, becoming more pronounced toward the end of the year as sales are usually lightest in November and December. Demand for tires for original equipment on motor vehicles has begun to ease off in consequence of the passing of peak production in the automotive industry but replacement of worn-out tires should be much heavier in the latter months of this year than last, since there has been a very marked increase in registration of passenger cars and trucks, and furthermore sales were affected by the industrial depression in the last half of the preceding year.

The outlook for next year, according to all present indications, promises a continuation of record-breaking demand. Manufacturing capacity, however, appears to be adequate and it is unlikely, so far as can now be foreseen, that present prices will be materially changed for some time.

NO CHANCE ABOUT IT— TIOLENE IS GOOD

MOST good things owe their superiorities to their origin. Whether it be men or motor oil, the principle holds true.

The excellence of Tiolene Motor Oil is inherent, for it is endowed by the native qualities of the famous Cabin Creek Crude, from which it is refined. Cabin Creek Crude is the world's best and commands a premium price above all others.

The superiority of Tiolene and other Pure Oil products will endure by virtue of the fact that The Pure Oil Company controls the entire production of this great petroleum field. The Pure Oil Company, unlike most other well-known oil companies, operates intensively in every branch—producing, transporting, refining and marketing.

So, we reiterate, Tiolene is good—it can't be othewise.

You will find that all Pure Oil products are of a high degree of perfection and that they provide a real assurance of motor efficiency and economy.

THE PURE OIL COMPANY

Producers Refiners Marketers

74 Broadway, New York

THE LURE OF SUBURBAN REAL ESTATE

(*Continued from page 849*)

thought the scheme was already shady enough and ignored the suggestion.

The Reason for the Bad Streets

As to the condition of the streets, he explained with scrupulous courtesy that while the company still owned the streets it had sold its lots and was no longer interested in the care of the property. He said, however, that the company wanted to be entirely fair to its buyers, some of whom had complained, and was negotiating with the city authorities to take over and improve the streets. This would doubtless be accomplished in a few months, whereupon I would get due notice. I did, and that was but the first of many "due notices" which marked the progress of subsequent events. The city took the streets in condemnation proceedings, paid the company for them, and assessed the cost of the land, plus the cost of the proceedings, on the property owners. One of the commissioners in the proceedings, who drew several thousand dollars in fees, a local real estate agent, had been active in the sale of the property. I paid an assessment of over a hundred dollars in this proceeding, a fairly substantial contribution to the profits of the "development."

In the next few years the city authorities devoted themselves with zeal and persistence to the improvement of this section of the city. In bewildering succession followed due notices of assessments for paving the avenue on which the trolley ran, for paving the parkway through the property, for paving the street where my lots were located, for sewers on the parkway, for sewers on my street, for water mains, for relaying sidewalks. At last it appeared that the neighborhood was finished and there was an end of special assessments; but in the meantime the improvements for which the lot owners had paid had so fast enhanced the value of the property that there was an advance of over two hundred per cent in its assessed valuation on the city's tax roll, with a corresponding increase in the taxes.

Six and One-Half Years Later

Six and one-half years after I bought the lots, having completed in the meantime my "easy monthly payments" and obtained a deed, my account with the lots stood as shown in the accompanying table.

By the end of that time I had lost much of my early faith in the future of the property and in my own perspicacity, and decided to close the transaction out. I placed the lots for sale in the hands of an agent in the neighborhood and was glad to be relieved of them at a price of two thousand dollars, by a builder who planned to erect on them a two-family house. Out of the price paid me by the builder for the lots, I paid one hundred dollars commission to the agent and was obliged to leave eighteen hundred on bond and mortgage, on the builder's undertaking to improve the property. As this was soon done, however, in a manner amply to secure my mortgage, which has since paid me six per cent interest, I have no reason to regret this feature of the deal.

The house, when finished, was sold by the builder at a treble profit, on the lots, on the construction and on the house itself, to a hardworking and thrifty foreigner, who occupied the ground floor with his family and rented the upper floor. From what I know of rents during the last few years he must have realized from the upper floor a handsome income. Though he has not paid off my mortgage, I am told he has bought the two adjacent lots and built thereon a similar house to rent, so that to him the money is clearly worth more than the six per cent he pays me for its use.

After selling the lots, I took pains to calculate the proceeds of a savings bank account, opened with an initial deposit of two hundred dollars on the day of my purchase of the lots, and increased by deposits equal to the later payments on account of the lots, with semi-annual interest at the usual rate of four per cent. I found that, had I deposited my money in this way I would have built up during the period, by the process of accretion that once seemed to me so slow, a bank balance of over twenty-seven hundred and fifty dollars.

This I regard as the minimum return that I should have realized on any good investment, and the sum which, but for the lure of "unearned increment," I might have had, in place of the net amount of nineteen hundred dollars, realized on my real estate transaction. The difference of eight hundred and fifty dollars I count as the price of my first investment course in the school of experience. I have learned to distinguish three classes of dealers in real estate, those who speculate for large profits, as did the development company and the builder, those who invest as did the buyer and present owner of the two-family house, and those who carry the bag for the speculators, until the course of events has determined the character of the neighborhood and the manner in which the property can be turned to the best advantage. In the person of the humble menial who served in the last capacity I recognize myself.

A MESSAGE TO THE AMERICAN BANKERS ASSOCIATION

(*Continued from page 817*)

Entire elimination of the political element in selections for office under the Federal Reserve System is absolutely essential, if the management of its affairs is to continue to be handled in an even approximately satisfactory and non-partisan manner. The necessity for such non-political appointments applies not only in the case of the membership of the Federal Reserve Board, both now and in the future, but is equally important in connection with appointments to be made by that Board to places in the directorates of the several banks wherever located.

Is not this a matter in which the organized banking profession of the country should express itself in an absolutely unmistakable manner, in order that the opinion of the financial community may once and for all be placed on record and conveyed to the political authorities who seem to feel doubt concerning the attitude of the bankers of the country?

Financial Relations with Foreign Countries

There is another aspect of the present unusual and remarkable situation which must commend itself powerfully to the mind of the associated bankers of the nation. This is found in the wholly anomalous character of the financial relations that have been developed between this country and Europe. Not only did we, in the first instance, lend to European countries for the management of the war and the settlement of obligations growing out of it, a sum close to $10,000,000,000, but we have never collected interest upon any of this vast advance. Instead, we have continued to lend regularly through private sources, just as we did through public, to European borrowers, carrying them either by means of enormous open balances representing merchandise indebtedness, much of which is still on our books, or else by purchasing vast quantities of European paper currencies which have now turned out to be nearly worthless. In addition to this, the investors of the United States have (since the opening of the present year) been absorbing foreign bonds of one kind or another at a rate of $1,200,000,000 to $1,500,000,000 per annum. Much of this enormous indebtedness is likely to prove uncollectable and certainly will do so in the absence of some definite financial policy on the part of our Government and banks with respect to American investment abroad. It is urgently necessary that, at the earliest possible date, there shall be a restoration of some basis of monetary soundness in the principal European countries, accompanied by banking reforms calculated to make such soundness permanent. As an incident to this necessary development, the achievement of at least a measure of budgetary equilibrium is indispensable.

Ought not the financial community of the United States to agree upon an effective programme in this matter, which shall be sufficiently broad and forward-looking to permit the reasonable use of American capital in Europe, but which shall, at the same time, undertake to safeguard investors in the United States against the hazardous use of funds in a way that must inevitably lead to eventual loss?

The rendering of a positive and final answer on all of these points has already been long deferred, and cannot be suffered to be much further postponed. Should it be so postponed, the outcome will inevitably be loss and disaster, with at least the possibility of irreparable damage to the financial and banking system of the United States.

New York Stock Exchange

	Pre-War Period 1909-13 High	Low	War Period 1914-18 High	Low	Post-War Period 1919-21 High	Low	1922 High	Low	Last Sale Sept. 21	Div'd $ per Share
RAILS:										
Atchison	125⅛	90¼	111¼	75	104	76	108½	91¼	104⅛	6
Do. Pfd	106¼	96	102⅛	75	89	72	95½	85	92⅛	5
Atlantic Coast Line	148½	102½	126	79⅞	107	77	124⅞	83	121¼	7
Baltimore & Ohio	122¼	90⅝	96	88¼	55¼	27⅝	60¼	33½	56	..
Do. Pfd	96	77¼	80	48¼	59½	38½	66¼	52½	‡65⅛	4
Canadian Pacific	283	165	220⅛	126	170⅞	101	151⅝	119⅛	145⅛	10
Chesapeake & Ohio	92	51⅛	71	35⅝	70⅜	46	79	54	73⅝	4
Chicago Great Western	36⅞	1¼	17½	6	14½	6¼	10½	4⅝	6½	..
Do. Pfd	64⅛	28	47½	17½	38⅜	14	24½	11½	14½	..
C. M. & St. Paul	165⅛	96¾	107⅛	35	52¼	17¼	36⅜	16½	33	..
Do. Pfd	181	130½	143	62½	76	29½	55	29	50½	..
Chicago & Northwestern	198⅛	123	136⅞	85	105	60	95⅛	59	92⅛	5
Chicago, R. I. & Pacific	..	..	45¾	16	41	22⅝	50	30¾	44¼	..
Do. 7% Pfd	..	..	94¾	44	89¾	64	105	83¼	103¾	7
Do. 6% Pfd	..	..	80	35¼	77	54	93¾	70¼	93⅛	6
Cleveland C. C. & St. L.	92¼	34⅞	62⅝	21	61	31⅜	80½	54	‡78	2
Delaware & Hudson	200	147½	159½	87	116	83¼	141½	106¾	‡137	9
Delaware, Lack. & W.	340	192½	242	160	260½	93	137	110½	133	6
Erie	61¼	33½	59½	18¾	21⅜	9½	18¾	7	15½	..
Do. 1st Pfd	49⅛	26¼	54¾	15⅛	33	15	25½	11⅛	24⅜	..
Do. 2nd Pfd	39⅛	19½	45⅝	13⅛	23¾	10	20¼	7⅛	17½	..
Great Northern Pfd	157⅞	115½	134¾	79¼	100⅝	60	95½	70¼	92¼	7
Illinois Central	162⅛	102¾	115	85¾	104	80⅞	115¾	97½	111½	7
Kansas City Southern	50¼	21⅜	35⅛	13½	28⅞	13	30¼	22	23⅞	..
Do. Pfd	75½	56	65½	40	57	40	59½	52¾	58⅛	4
Lehigh Valley	121¼	62½	87⅛	50⅜	60¾	39¾	72	56⅝	68¼	3½
Louisville & Nashville	170	121	141⅞	103	122¾	94	141½	108	137⅞	7
Minn. & St. Louis	*65	*12	36	6⅞	24½	5⅛	14½	5	9½	..
Mo., Kansas & Texas	51⅛	17½	24	3⅛	16⅝	¾	14	⅜	‡13	..
Do. Pfd	78¼	46	60	6½	25⅛	2	14½	1½	‡13	..
Mo. Pacific	*77½	*21½	38½	19⅞	38⅞	11½	25¼	16	22	..
Do. Pfd	..	..	64⅞	37½	58¾	33⅜	63¾	43½	59	..
N. Y. Central	147¾	90⅛	114¼	62½	84¼	64⅛	100⅜	72¾	97¾	5
N. Y., Chicago & St. Louis	109¾	90	90¾	55	65	23¾	91	51⅝	87¾	5
N. Y., N. H. & Hartford	174¾	65⅝	89	21½	40⅞	12	35¼	12⅜	30⅞	..
N. Y., Ont. & W.	55⅜	25⅛	35	17	27⅜	16	30½	19¾	‡25¼	2
Norfolk & Western	119¼	84¼	147⅛	92⅝	112½	84¼	125⅛	96¼	118½	7
Northern Pacific	159½	101¾	118⅞	75	99⅞	61¼	90⅛	78½	86	5
Pennsylvania	75⅝	53	61½	40¼	48½	32¼	49¼	33¼	48⅛	2
Pere Marquette	*36½	*15	38⅛	9½	33½	12⅛	49⅝	19	37¼	..
Pitts. & W. Va.	..	..	40⅜	17¾	44¾	21⅛	41⅜	23	35¼	..
Reading	89⅝	59	115½	60⅛	108	60¾	83	71⅛	78	4
Do. 1st Pfd	46¾	41¼	46	34	61	32⅞	57	43	53½	2
Do. 2nd Pfd	58¾	42	52	33¾	65½	33¼	59½	45⅞	53	2
St. Louis-San Francisco	*74	*13	50½	21	38⅞	10¾	22⅜	20⅝	29	..
St. Louis Southwestern	40⅜	18½	32⅛	11	40	10⅞	36	20½	31	..
Do. Pfd	82⅜	47½	65⅛	28	49¾	20⅛	52¾	32⅜	49¾	..
Southern Pacific	139⅛	83	110	75¾	118⅛	67½	95⅞	78⅛	93½	6
Southern Ry	34	18	36¾	12½	33¼	17⅜	28⅝	17⅛	25½	..
Do. Pfd	86⅞	43	85¼	42	72½	42	64⅝	45¾	62½	..
Texas Pacific	40½	10¼	29½	6½	70½	14	36	24	30⅛	..
Union Pacific	219	137¾	164⅜	101¼	138½	110	154¾	125	150	10
Do. Pfd	118½	79¾	86	69	74¼	61¼	80	71¼	78⅞	4
Wabash	*27⅞	*2	17⅛	7	13⅜	6⅜	14⅜	6	12⅛	..
Do. Pfd. A	*61¾	*6⅛	60½	30⅞	38	17	35½	19⅛	32	..
Do. Pfd. B	..	..	32⅞	18	25½	12½	24⅞	12¼	21¾	..
Western Maryland	*56	*40	23	9¼	15⅝	8⅜	17¼	8¼	14½	..
Western Pacific	..	..	25½	11	40	15	24⅞	13¾	18	..
Do. Pfd	..	..	64	35	78	51½	64⅞	51⅝	‡63	6
Wheeling & Lake Erie	*12⅞	*2⅛	27⅜	8	18¼	6¼	16½	6	13	..
INDUSTRIALS:										
Allied Chem	..	..	..	..	82⅜	34	91¾	55⅛	83¼	4
Do. Pfd	..	..	..	..	103¾	83	115½	101	‡112	7
Allis Chalmers	10	7⅝	49⅛	6	53⅞	26½	59¾	37¾	56¼	4
Do. Pfd	43	40	92	32½	97	67¼	103½	86½	‡102½	7
Am. Agr. Chem	63⅝	33½	106	47¼	113¼	26½	42⅞	29¾	38¼	..
Do. Pfd	105	90	103½	89⅛	103	51	72¼	55¾	‡68⅝	..
Am. Beet Sugar	77	19¾	108½	19	103¾	24½	49	31¾	44¾	..
Am. Bosch Mag	..	..	..	..	143⅞	29⅛	49	31¼	40¼	..
Am. Can	47⅜	6⅞	68½	19¼	68⅝	21¾	63⅞	32⅛	59½	..
Do. Pfd	129¼	98	114½	80	107⅝	72	110⅛	93¼	‡109½	7
Am. Car & Fdy	76½	36½	98	40	151¼	84⅛	193	141	186	12
Do. Pfd	124¼	107½	119½	100	119	105¾	125	115½	‡121	7
Am. Cotton Oil	79¼	33½	64	21	67½	15⅛	30½	19¼	28	..
Do. Pfd	107½	91	102¼	78	93	35½	61	41	55¼	..
Am. Drug Synd	..	..	..	..	15⅛	4	7¼	4½	6½	..
Am. Hide & L.	10	3	22⅛	2½	43⅛	5	17⅜	12	13¼	..
Do. Pfd	51⅞	15⅛	94⅞	10	142⅜	35	74¾	58	70⅛	..
Am. Ice	..	..	49	8⅞	83½	37	122	78	115½	7
Am. International	..	..	62¾	12	132¼	21¼	50⅝	33	34¼	..
Am Linseed	20	6⅞	47¾	20	95	17¼	40¾	29⅜	36¼	..
Am. Loco.	74¼	19	98¼	46⅝	117½	58	127¾	102	121½	6
Do. Pfd	122	75	109	93	115	96½	121⅛	112	118½	7
Am. Safety Razor	..	..	..	..	22	3½	8⅝	3⅝	7¼	..
Am. Ship & Com	..	..	..	..	47½	4¾	25⅛	5½	21¼	..
Am. Smelt. & Ref.	105½	56⅝	123¾	50¼	89¼	29¼	67½	43⅝	61¾	..
Do. Pfd	116¾	98¼	118⅛	97	109⅝	63¼	103½	86⅛	108⅛	7
Am. Steel Fdys	74½	24⅛	95	44	50	18	46⅛	30¾	43¼	3
Do. Pfd	..	..	..	..	96½	78	106½	91	‡104	7
Am. Sugar	136⅜	99⅞	126⅛	89⅛	148⅜	47⅝	85⅞	54⅛	80¼	..
Do. Pfd	133½	110	123½	106	119	67½	112	84	‡110	7
Am. Sumatra Tob	..	..	145¾	15	120½	28½	47	23¼	41	..
Do. Pfd	..	..	103	75	105	64¾	71	52¼	‡68½	..
Am. Tel. & Tel.	153⅜	101	134½	90⅝	119½	92⅛	128¼	114½	121⅞	9
Am. Tobacco	*530	200	256	123	314½	104⅛	169½	129⅛	160½	12
Do. B	..	..	..	..	210	100⅛	165¾	126	106	12
Am. Woolen	40⅝	15	60⅞	12	169½	55½	105	78¼	97⅝	7
Do. Pfd	107¾	74	102	72½	110¾	88½	110½	102½	‡100	7
Anaconda	54⅜	27½	105⅜	24¼	77⅞	30	57	47	53¼	..
At. Gulf & W. I.	13	5	147¾	4½	192⅝	18	43¼	23½	38½	..
Do. Pfd	32	10	74¾	9⅞	76½	15¾	31¼	16½	23	..
Baldwin Loco	60¾	36½	154½	26⅝	156¼	62¼	140⅛	92¾	134½	7
Do. Pfd	107½	100¼	114	90	111⅞	92	115¼	104	115	7
Bethle. Steel B	*51⅛	*18¾	155½	59¾	112	41½	82¼	55½	75⅜	5
Do. 7% Pfd	80	47	186	68	108	87	105	90⅞	100	7
Do. 8% Pfd	..	..	110½	92½	116	90	116⅝	104	112½	8
Calif. Packing	..	..	80	80	87½	48¼	86½	68	84½	6
Calif. Petro.	72⅛	16	42⅜	8	56⅜	15¾	71⅞	48⅛	68	

Price Range of Active Stocks

	Pre-War Period 1909-13 High	Low	War Period 1914-18 High	Low	Post-War Period 1919-21 High	Low	1922 High	Low	Last Sale Sept. 21	Div'd $ per Share
INDUSTRIALS—Continued:										
Calif. Petro. Pfd.	95½	45	81	29½	88	63	98½	83	‡95½	7
Central Leather	51¾	16½	123	25¾	116½	22¼	44½	29¼	41	..
Do. Pfd.	111	80	117½	94⅞	114	57⅞	82¾	63⅝	80⅛	..
Cerro de Pasco	..	..	55	25	67½	23	41¾	32¾	39½	..
Chandler Mot.	..	..	109⅞	50	141¼	38¼	79¼	47¾	58⅝	6
Chile Copper	..	..	39¾	11¼	29¾	7⅛	25¾	15½	25⅛	..
Chino Copper	50⅜	6	74	31⅛	50⅞	16⅛	33⅛	25⅜	30	..
Coca Cola	..	..	..	..	43⅜	18	74½	41	68	4
Colum. Gas & E.	..	..	54⅜	14¾	69	39¼	114⅞	64⅜	109	6
Columbia Graph.	..	..	*166	*97	75¾	2⅛	5¾	1¼	3½	..
Consol. Cigar	..	..	..	..	80	13½	41⅝	18⅝	38½	..
Consol. Gas	165¼	114½	150½	112½	106⅜	71¼	145¾	85	139½	8
Corn Prod.	26½	7⅛	50½	7	105¼	46	120¾	91¼	114⅝	6
Do. Pfd.	98½	61	113½	58⅛	112	96	120	111	‡117	7
Crucible Steel	19⅝	6½	109⅞	12⅛	278½	49	98⅜	52⅜	88½	..
Cuba Cane Sugar	..	..	76⅜	24⅞	59⅜	5⅝	19¾	8⅛	13⅝	..
Cuban Amer. Sugar	*58	*33	*273	*38	*605	10⅞	28	14½	23	..
Fisk Rubber	..	..	..	..	55	8¾	19½	11¼	13	..
Freeport Tex.	..	..	70½	25⅜	64⅜	9½	26⅞	12¼	23	..
Gen'l Asphalt	42⅞	15½	89⅜	14¾	160	32½	73¾	55⅛	62½	..
Gen'l Electric	188½	129¾	187¼	118	176	109½	188	136	177	8
Gen'l Motors	*51¾	*25	*850	*74½	42	9⅜	15¼	8⅛	14¼	..
Do. 6% Pfd.	..	..	90½	72¾	95	63	86	69	‡84⅝	6
Do. 6% Deb.	..	..	..	..	94¾	60	86	67¾	85	6
Do. 7% Deb.	..	..	..	..	94	69	100	79½	99	7
Goodrich	86½	15½	80¼	19⅜	93⅜	26⅜	44⅞	32½	33½	..
Do. Pfd.	109¾	73⅛	116¾	79⅞	109½	62½	91	80½	‡85	7
Gt. Nor. Ore	88½	25½	50⅜	22½	52¾	24⅞	45⅝	31⅜	38¾	4
Houston Oil	25½	8¼	86	10	116½	40½	85	70	78⅞	..
Hudson Motors	..	..	..	..	..	..	24	19½	22	2
Hupp Motors	..	..	11⅜	2½	23¼	4⅝	23⅜	10⅞	21	1
Inspiration	21⅝	13⅞	74¾	14¾	68⅞	23	45	37½	40½	..
Inter. Mer. Marine	9	2⅛	50⅞	⅜	67¼	7⅛	27¼	13	14¼	..
Do. Pfd.	27⅝	12½	125⅜	8	128½	86	87⅜	53⅛	57⅛	6
Inter. Nickel	*227¼	*135	57½	24½	33⅞	11⅛	19¾	11¼	17¼	..
Inter. Paper	19¾	6½	75½	9½	91¾	30⅛	61⅜	43½	56¼	..
Invincible Oil	..	..	..	..	47¼	5½	20¾	12⅛	15⅜	..
Island Oil	..	..	..	..	7⅛	2	3	⅝	⅝	..
Kelly Springfield	..	..	85¼	86⅞	164	25½	53¾	34¼	43⅛	..
Do. 8% Pfd.	..	..	101	72	110¼	70¼	107¾	90½	‡104	8
Kennecott	..	..	64¼	25	43	14⅝	39⅛	25½	35⅝	..
Keystone Tire	..	..	46½	11	126¾	8¼	24⅜	8	8⅜	..
Lackawanna Steel	55½	28	107	26½	107¾	32	83	44	81¾	..
Loews, Inc.	..	..	..	..	88⅜	10	23¾	11	21⅜	..
Loft, Inc.	..	..	..	..	28	7¾	14¼	9	12¼	1
Mexican Pet.	90½	41¼	129⅝	46½	264	84½	204½	106¾	186¼	12
Miami Copper	30¼	12⅜	49⅜	16½	32¾	14⅛	31⅜	25⅜	29	2
Middle States Oil	..	..	..	..	71⅜	10	16	11⅝	13¼	1.20
Midvale Steel	..	..	98½	39½	62¼	22	45½	27⅛	35⅝	..
Nat'l Lead	91	42½	74⅝	44	94½	63½	110¼	85	103	6
N. Y. Air Brake	98	45	136	55⅞	145¼	47½	84⅞	40¼	38⅞	..
N. Y. Dock	40¼	8	27	9¼	70¾	16¼	46	28	36½	2½
North American	*87⅞	*60	*81	*35⅞	46	32¼	99⅜	44½	92⅞	5
Do. Pfd.	..	..	..	..	41½	31⅞	47¼	38	46⅛	3
Pacific Oil	..	..	..	..	50⅛	27½	69⅜	44⅜	56	3
Pan. Amer. Pet.	..	..	70¾	85	140¼	38⅛	86½	48⅞	78½	6
Do. B	..	..	..	..	111⅜	34⅛	82½	44	74½	6
Philadelphia Co.	59¼	37	48⅞	21⅜	48	20½	45¼	31½	44	3
Phillips Pet.	..	..	..	..	44½	16	59¼	28¼	51½	2
Pierce Arrow	..	..	65	25	99	9¼	24⅝	8	12½	..
Do. Pfd.	..	..	109	88	111	21	49	15⅞	33	..
Pittsburgh Coal	*29⅜	*10	58¾	37½	74⅜	45	72⅜	58⅞	60	5
Pressed Steel Car	56	18½	88¼	17¼	113¾	48	95¼	63	90½	..
Do. Pfd.	115	88½	109⅜	69	106	83	106	91	104½	7
Punta Aleg. Sug.	..	..	51	29	120	24¾	53⅛	30⅜	46⅜	..
Pure Oil	..	..	143⅞	31⅞	61⅞	21½	38⅛	26¾	31¾	2
Ry. Steel Spg.	54½	22¼	78½	19	107½	67	120¼	94	118	8
Do. Pfd.	113⅛	90⅛	105½	75	112	92½	115¼	108¾	‡114	7
Ray Cons. Cop.	27½	7½	37	15	27½	10	19	13½	15⅜	..
Replogle Steel	..	..	..	..	93½	18	41	25½	32¾	..
Republic I. & S.	49½	15⅜	96	18	145	41⅛	78⅝	46¼	66⅜	..
Do. Pfd.	111¼	64½	112⅜	72	106¾	75⅛	95½	74	92	..
Republic Motors	..	..	77	61	74½	5	14⅛	2½	3½	..
Royal Dutch N. Y.	..	..	86	56	123⅜	40½	67	47¾	55	3.88
Shell T. & T.	..	..	..	..	90¼	30⅞	48⅛	35⅜	‡39¼	.63½
Sinclair Con. Oil	..	..	67⅛	25¼	64¼	16½	38⅜	18¾	33⅝	2
Sloss Shef. Steel	94⅝	23	93¾	19½	89	32½	54½	34½	48	..
Stand. Oil N. J.	*448	*322	*800	*355	212	124½	198¾	169	192	5
Do. Pfd.	..	..	..	..	114½	100⅛	118⅛	113⅜	116⅞	7
Stromberg Carb.	..	..	45¼	21	118¾	22⅛	59⅛	35¼	51⅜	4
Studebaker	49½	15¾	195	20	151	37¾	139½	79⅛	126⅛	10
Do. Pfd.	98⅛	64½	119⅜	70	104⅛	76	118	110	‡115	7
Superior Steel	..	..	96	30¾	60	26	39⅛	26	‡31	..
Tenn. Cop. & Chem.	..	..	21	11	17⅛	6¼	12¾	9¾	10	..
Texas Co.	144	74½	248	112	57¾	29	50½	42	47¼	3
Tex. Pac. C. & O.	..	..	..	..	105	15¾	32¾	23	25	1
Tobacco Prod.	145	100	82⅜	95	115	45	67	52¾	62⅝	6
Transcontl. Oil	..	..	..	..	62⅜	5⅝	20⅛	7½	14	..
United Fruit	208½	120½	173	105	224⅞	95¼	155¼	119¾	150	8
Un. Retail Stores	..	..	..	..	119¼	45¼	87½	43½	81	..
U. S. Food Prod.	41⅜	9⅜	64¾	5½	91⅜	8½	10⅛	2¾	6⅞	..
U. S. Ind. Alco.	57¼	24	171½	15	167	35¼	67¾	37	64⅞	..
U. S. Rubber	59½	27	80½	44	143¾	40½	67½	51⅝	50½	..
Do. Pfd.	123½	98	115¼	91	119½	74	107	91	94¼	8
U. S. Smelt. & R.	59	30⅜	81½	20	78¼	26	45⅜	32¾	42	..
U. S. Steel	94⅞	41¼	136⅜	88	115½	70¼	106⅜	82	103⅛	5
Do. Pfd.	131	102½	123	102	117½	104⅛	123	114¼	‡121½	7
Utah Copper	67½	88	130	48½	97⅛	41⅛	71½	60⅜	67¼	2
Vanadium	..	..	..	..	97	25⅛	53¾	30¼	49	..
Va.-Caro. Ch.	70⅜	22	60¼	15	92½	20¾	86⅞	25¼	27½	..
Do. Pfd.	129½	62	115⅜	60	115⅞	57¾	82	58	‡65½	..
Western Union	86¼	56	105½	58⅜	94	76	121¼	89	116½	7
Westinghouse Mfg.	45	24¾	74⅞	32	59⅞	38⅞	65⅛	49⅛	62⅞	4
White Motors	..	..	60	30	86	29¼	54	35⅛	50	4
Willys Overland	*75	*50	*325	15	40¼	4⅛	10	4½	7	..
Wilson Co.	..	..	84¼	42	104⅛	27½	50½	27⅛	47¼	..
Woolworth	177⅜	76⅜	161	81⅜	189¾	100	194	137	184	8

* Old stock. ‡ Bid price given where no sales made.

INQUIRIES ON INDUSTRIAL SECURITIES

(*Continued from page* 847)

over thirteen millions, as against four millions before the war. No immediate increase in the dividend is looked for, but if conditions continue to remain as favorable as they are at the present time stockholders may receive a higher rate in six months or a year's time. At present price of 44 the stock yields 6.8% and does not look high at that price even should the dividend not be increased.

WESTERN PACIFIC COMMON

Favor Switch to Erie 2nd Pfd.

Your advice in regard to Western Pacific common stock will be appreciated.—S. L., Brooklyn, N. Y.

Western Pacific earnings have been disappointing for some time and while the outlook now has improved, still we believe there are better possibilites in other securities than in the common stock of this company. Instead of purchasing it, our suggestion would be to purchase Erie 2nd preferred, selling around 18. Erie's earnings suffered through the coal strike, but now that this has been settled, it will undoubtedly have a very heavy traffic and it should be able to make excellent statements the last few months of the year. The Erie stocks have always been speculative favorites and we look for a better market in them. (See page 838.)

GREAT NORTHERN

Dividend Now Seems Secure

I am holding 200 shares of Great Northern preferred for investment. Kindly give me your opinion on this.—S. T. A., Scranton, Pa.

We are very favorably impressed with the outlook for Great Northern preferred and we believe it advisable for you to hold your stock for still higher prices. Traffic in the Northwest promises to be heavy for some time to come and should enable this road to cover its dividends with a good margin to spare. As a 7% stock that has been a favorite with investors for many years, it should, in our opinion, sell at higher levels.

WILL IMMIGRATION LAW CRIPPLE INDUSTRY?

(*Continued from page* 819)

They become genuine and not veneered Americans, whereas the superficially educated aliens rarely become truly Americanized.

In considering, then, the effect of the present immigration laws upon our industries and our national life, it seems evident that wages are not only likely to continue at present levels but to go even higher as the shortage of workmen grows from year to year, and that the manufacturing and construction costs will also continue high and tend to increase.

Monopolistic Labor Control

The present immigration laws tend to promote monopolistic control of the labor market such as has recently been unearthed in New York and Chicago. An unreasonably high protective immigration wall will foster a labor monopoly control similar to the industrial monopolies fostered by unreasonably high protective tariff walls. The results are to be avoided by thinking leaders of both capital and labor. To restrict unduly the free play of economic forces which keep industry in a healthy condition, is bound to produce a congestion in the industrial system which ultimately requires drastic methods to cure.

In addition to strengthening to a dangerous degree monopolistic labor associations, the elimination of immigration of the materially productive type tends to result in such a scarcity of labor that workmen, in an entirely human way, flout industrial discipline and decline in efficiency. In the boom year of 1920 labor efficiency was fifty per cent less than before the war. In the hungry times of last year labor gained in productivity; now it is slipping back again. Organizations of labor have a tendency to fit their objectives to the requirements of the most inefficient members, and rules or practices to that end are most effective when there is a great surplus of jobs; so that production per capita is apt to be more or less arbitrarily fixed just when the utmost production is demanded. In the United States, however, I am glad to state, the national leaders of labor with whom I have dealt, are sincerely convinced that restriction of production is directly opposed to the workingman's interests. Such studied restriction as there is is local and sporadic and is not yet a national affliction.

Leaders among both employers and workmen, who are studying the results of the first year's operation of the three per cent Immigration Law can arrive at but one conclusion. The law needs revision. Scientific, selective immigration which meets the country's needs, must be made possible. If we continue to dance to the tune of unrestricted immigration which cannot be assimilated and which has had its day, we shall certainly pay the fiddler.

MEXICAN DEBT NEAR SETTLEMENT

(*Continued from page* 827)

worth their present prices for those who have hitherto invested no money in Mexico, is another question. Even with the pasing of the agreement by the Mexican Congress, there will remain a strongly speculative flavor about these bonds, because of the unsettled political conditions of Mexico if for no other reason. Even an eventual recognition of the present Mexican Government by the United States, which will undoubtedly be hastened by the acceptance of the agreement, would not do much to remove this uncertainty.

In addition it is to be noticed that even assuming that all the provisions of the agreement are faithfully carried out, the speculative flavor is by no means removed. In most classes of Mexican

bonds, for instance, it is provided that a greater or less percentage of the current interest payments for the next five years are to be paid in scrip, which matures in fifteen to twenty years. Independent of the fluctuations in the bonds themselves it is probable that the scrip will be quoted in the open market at fluctuating prices, so that the income on the bonds, being quoted in a fluctuating medium, will cause the bonds to fluctuate more than ordinary bonds would.

How It Would Work Out

For instance, an ordinary well-secured bond paying a stable $5 in cash per $100 par will sell at 100 when the interest level for that class of bonds is 5% and will decline to 71½ or 5-7ths of par should the interest level rise to 7%. In the case of a bond paying part of its interest in scrip, however, should the general level of yields decline, the scrip will decline in market price because money will be worth less, and the bond itself will decline still further because the medium in which it is paid is worth still less than if it were fixed cash.

Accordingly, assuming that the 5% on the bond is paid in 3% scrip, which sells at 60, should the general level of interest rates go up to 7% the scrip would sell at (5-7ths times 5-7ths) or 25-49ths of par, or 51.

On the other hand, it is true that should the level of interest rates decline, the bonds paying their interest in scrip would gain more proportionately than bonds paying their interest in cash. Starting as before with two bonds, one of each kind, selling at par on an interest level of 5%, should the general level drop to 3%, the bond paying its interest in cash should rise to 5-3rds of par, or 167, while the bond paying scrip should rise (5-3rds times 5-3rds) or 25-9ths, to 278. It will be noticed also that the rise in prices on a 2-point drop in interest level is much higher than the drop in prices on a 2-point rise in the interest level, so that the holder of a bond paying interest in scrip stands to win more than he can lose, although both losses and profits due to changes in the money rate are higher than in the case of a bond paying interest in cash.

It is evident, however, that in either case, and without regard to other market influences that might affect the price of the bonds, the obligations of Mexico covered by the agreement with the International Committee of Bankers on Mexico are highly speculative, to say the least, although because of their payment of part of their interest in scrip they have the speculative advantage noted above. In other words, on their purely investment merits they could rise 178 points and fall only 49 points on equal changes in the money rate, up or down.

Intrinsically, the bonds seem to be well covered by the national taxes, which work out at little more than 10 pesos per head, a remarkably small sum even conceding Mexico's low industrialization. Intending purchasers, however, should buy them with their eyes wide open to the speculative nature of these securities.

Current Bond Offerings

TOTAL bond offerings in the past two weeks were very heavy compared with those offered in similar periods during the year. The total amount offered in the past two weeks was over $150,000,000. The most interesting phase of this new financing was the large amount of refunding. The most important bit of refunding was the $15,000,000 issue of 5½% 15-year gold debentures issued by the Cudahy company. This action followed that of the Swift Company which issued $50,000,000 for the similar purpose of replacing high coupon-rate bonds by others involving smaller interest payments. There should be a great deal more of this financing within the period immediately ahead.

Of all cases of new bonds, state and municipals led the way. The average rate offered on these new issues was about 4¼% and several were offered below the 4% level. Of course, the feature of these bonds which appeals is their tax-exempt feature. Tax rates are still high enough to induce individuals of large income to divert their funds in large measure to non-taxable issues.

The paucity of foreign issues is, of course, due to their unfavorable position in the light of developments abroad. If anything, there is less general confidence in this country with regard to issues of unstable foreign Governments than at any time within the past two years.

NEW BOND OFFERINGS

	Amount	Off'd Yield (%)
STATE AND MUNICIPAL		
Fort Worth, Texas	$1,000,000	4.50–4.40
State of Michigan	3,000,000	4.00–3.95
City of Detroit	5,009,000	4.12
State of Alabama	500,000	4.25
State of Illinois	7,734,000	3.90
Jersey City, N. J.	500,000	4.00–4.10
Milwaukee Co., Wis.	4,300,000	4.20
FOREIGN		
Province of Alberta	$3,000,000	5.10
PUBLIC UTILITY		
Portland Ry. Lt. & P.	$2,500,000	6.30
Kansas Gas & El. Co.	3,000,000	6.60
RAILROAD		
C. R. I. & P. Ry. Co.	$5,000,000	5.50
N. Y., Chic. & St. L.	3,150,000	5.00
Seaboard A. L. Ry.	2,560,000	5.00–5.70
Chic., Ind. & L'sville	725,000	4.50–5.05
INDUSTRIAL		
Stevens & Thompson Paper Co.	$1,000,000	6.45
Cudahy Packing	15,000,000	5.50
FARM LOAN		
Land Bank State of N. Y.	$1,000,000	4.10–4.68
Lincoln Joint Stock Land Bank	2,500,000	4.60–5.00
Southern Minn. Joint Stock Land Bank	3,000,000	4.60–5.00

Important Government re-financing is under way. Approximately $4,400,000,000 near-by maturities of the Government are awaiting final settlement and announcement from the Treasury with regard to its plans for refunding may be heard at any time. These refunding operations will have a great effect on all other financing, and the provisions of the new issues will be awaited with great interest.

HOW THE CORPORATION IS FORMED

(*Continued from page 852*)

that our actual certificates of stock will be deposited in escrow in a trust company, and that voting trust certificates will be issued against them. By this method, our 765 shares will be, for 10 years at least, constantly held among ourselves, and can never be sold outside our circle."

This solution having been accepted, the organizers form their corporation. They authorize 1,500 shares, of which they issue exactly 765 to themselves, in exchange for carefully appraised plants and cash, as arranged. The 765 shares, or control, go into the voting trust.

Then the remaining 735 shares it is necessary to sell in order to secure the capital needed are issued and sold to the public.

The First Balance Sheet

With the 1,500 shares sold in the manner specified, the organizers now wish to know the exact position of their corporation. For this purpose what is called a Balance Sheet must be prepared—a financial statement, prepared according to accepted formulae, showing the exact condition of a corporation at a given time.

As readers of THE MAGAZINE OF WALL STREET'S "Points for Income Builders" already know, the balance sheet will appear in two-column form. The first column will show the assets—which is to say, the things owned. Now, our bakers own plant and equipment, delivery trucks and $40,000 cash. These are tangible assets—that is, properties having a known value. They also have the good-will of their former customers—those who always used to buy bread from them, who know their bread, who like it, and who will continue to buy it because they know it and like it. Now, the five bakers might estimate the value of this good-will—say $10,000—and call it an asset. Lots of other corporations have done this with no greater justification

But let's make our five bakers men who prefer to stick to known factors, who like to have a full dollar's worth of value in every asset they list. In such case, they will more than likely ignore good-will, because it has never yet been discovered just how many dollars good-will is worth.

Then comes the second column, the liabilities, i. e., the obligations outstanding against the corporation. What are they? The corporation has borrowed no money. It has no bills to pay yet. It has issued no bonds. All it has outstanding is $150,000 worth of stock.

Hence, the $150,000 stock becomes the sole liability of the corporation and the first balance sheet of the Five Bakers Corporation reduces to the simple statement shown herewith.

(*The next chapter will trace a further growth in the "Five Bakers Corporation" and show how that growth affects the original shareholders.*)

HAVE BONDS REACHED THE TOP?

(*Continued from page* 832)

bonds which appear to be desirable purchases at this time. The yields on the same range all the way from 5.87% to a trifle above 7%. Compare this return with that obtainable on the higher-grade issues and it will be found that there is a considerable difference. This additional return should certainly compensate the buyer for any possible risk involved. All the bonds included in the tabulation are listed on the New York Stock Exchange, are active in the trading and have a good market. They have all advanced substantially in price from the low points touched this year, but still appear to be selling well out of line with the balance of the list.

There are two factors in connection with these low-priced bonds that do not exist in the case of the higher-grade issues. One of these factors we have frequently pointed out to our readers before. We refer to the stimulating effect on such bonds of increasing earnings. The higher grade issues as a rule are not affected to any great extent by improved earnings, as their interest charges in the majority of instances are covered by such a wide margin that earning power is a matter of small importance. The determining factor in these bonds is the existing rate for money and their price movement is regulated accordingly. The speculative issues, on the other hand, are subject to the double influence of money rates and earning power. With interest rates now at low ebb, and with a large prospective earning power in sight, there is an excellent foundation being laid for a substantial appreciation in their price. Increased earnings will afford a larger measure of protection as far as interest charges are concerned, and will serve as a lever to bring prices more in line with the balance of the bond list.

The other factor to which reference has been made is the inclination of investors at this time to give preference to bonds selling at a substantial discount. While it is true that a very satisfactory income return can still be obtained from some of the high coupon bonds selling at a premium, their possibilities of price appreciation are limited by their callable features. One of the outstanding developments of the current bond market has been the tendency of various corporations to replace their high coupon rate callable bonds with long-term loans of lower coupon rate. This frequency of corporations calling their bonds has caused an increasing demand for issues which are non-callable, particularly those having long terms to run, and will, no doubt, continue to be a factor of no small importance in the coming bond market. For that reason it seems advisable for those contemplating purchases at present to make their selections from the long term non-callable low coupon bonds now selling at a substantial discount and which have a good chance of appreciation.

UNLISTED UTILITY BOND INDEX

GAS AND ELECTRIC COMPANIES

	Asked Price	Yield
Bronx Gas & Electric Co. First 5s, 1960 (a)	88	5.85
Buffalo General Electric First 5s, 1939 (c)	101	4.90
Canton Electric Co. First 5s, 1937 (b)	94	5.50
Cleveland Electric Ill. Co. 5s, 1939 (b)	101	4.90
Denver Gas & Electric Co. First 5s, 1949 (c)	95	5.35
Duquesne Light Co., Pittsburgh, 7½s, 1936 (b)	107½	6.80
Evansville Gas & Electric Co. First 5s, 1932 (a)	95	5.90
Kansas Elec. Utility First 5s, 1925 (c)	82 bid	10.50
Indianapolis Gas Co. 5s, 1952 (a)	92	5.50
Los Angeles Gas & Electric Gen. 7s, 1931	105	6.30
Louisville Gas & Elec. Ref. 7s, 1932, 1923 (c)	101¼	5.70
Nevada-Cal. Electric First 7s, 1946 (c)	100	7.00
Oklahoma Gas & Electric Co. First & Ref. 7½s, 1941 (c)	104	7.10
Oklahoma Gas & Electric Co. First Mtge. 5s, 1929 (a)	97	5.55
Peoria Gas Electric 5s, 1923 (a)	100	5.00
Rochester Gas & Electric Corp. Series B 7s, 1946 (b)	107	6.60
San Diego Cons. G. & El. First Mtge. 5s, 1939 (a)	94 bid	6.35
San Diego Cons. G. & El. First Mtge. Ref. 6s, 1939	98 ½ bid	6.20
Standard Gas & Electric Conv. S. F. 6s, 1926 (b)	98½	6.40
Standard Gas & Electric Secured 7½s, 1941 (c)	103	7.20
Syracuse Gas Co. First 5s, 1946 (a)	94	5.32
Twin-State Gas & Electric Ref. 5s, 1953 (c)	80	6.50

POWER COMPANIES

	Asked Price	Yield
Adirondack P. & Lt. First & Ref. 6s, 1950	102	5.80
Adirondack El. Power Co. First 5s, 1962	97	5.15
Alabama Power Co. First 5s, 1946 (a)	96	5.30
Appalachian Power Co. First 5s, 1941 (a)	92½	5.60
Calif. Oregon P. Co. First & Ref. 7½s, Series A, 1941 (c)	104	7.10
Cent. Maine P. Co. First & Gen. Mtge. 7s, Series A, 1941	105	6.55
Cent. Maine Power Co. 5s, 1939 (a)	92	5.50
Cent. Georgia Power Co. First 5s, 1938 (c)	88	6.17
Columbus Power Co. (Georgia) First 5s, 1936 (a)	94	5.76
Colorado Power Co. First 5s, 1953 (c)	88	5.90
Consumers Power Co. (Mich.) 5s, 1936 (a)	97½	5.25
Electric Dev. of Ontario Co. 5s, 1933 (b)	97	5.35
Great Northern Power Co. First 5s, 1935 (a)	95	5.98
Great West. P. Co. First & Ref. 7s, Series B, 1950 (a)	104	6.67
Great West. P. Co. 5s, 1946 (a)	95½	5.34
Hydraulic Power Co. First & Imp. 5s, 1951 (b)	100	5.00
Idaho Power Co. 5s, 1947 (a)	95	5.30
Kansas City Power & Lt. 8s, 1940 (c)	108	7.35
Kansas City Power & Lt. First 5s, 1944 (c)	95½	5.37
Laurentide Power Co. First 5s, 1946 (b)	98½	5.10
Madison River Power Co. First 5s, 1935	100	5.00
Mississippi River Power Co., First 5s, 1951 (c)	96	5.25
Niagara Falls P. Co. First & Cons. Mtge. 6s, 1950 (b)	104	5.80
Ohio Power First & Ref. 7s, 1951 (c)	104	6.65
Penn. Ohio Power & Lt. Notes 8s, 1930 (c)	104	7.30
Potomac Electric Power Gen. 6s, 1923 (c)	102	4.90
Puget Sound Power Co. First 5s, 1933	96	5.40
Salmon River Power First 5s, 1952 (c)	98	5.40
Shawinigan Water & Power Co. First 5s, 1934 (b)	99½	5.10
Southern Sierra Power Co. First 6s, 1936 (c)	100	6.00
S. W. Power & Lt. First 5s, 1943 (c)	89	5.90
West Penn. Power Co. First 7s, 1946 (c)	105	6.60

TRACTION COMPANIES

	Asked Price	Yield
Arkansas Valley Ry. L. & P. First & Ref. 7½s, 1931 (b)	100	7.50
American Light & Traction Notes 6s, 1925 (c)	109	2.90
Bloomington, Dec. & Champ. Ry. Co. First 5s, 1940 (a)	75	7.50
Danville, Champ. & Decatur 5s, 1938 (a)	85	6.25
Georgia Ry. & Power 5s, 1954 (b)	88	5.90
Kentucky Traction & Terminal 5s, 1951 (a)	82	6.37
Knoxville Ry. & Light 5s, 1946 (b)	86	6.15
Milwaukee Light, Heat & Traction 5s, 1929 (a)	99	5.15
Milwaukee Elec. Ry. & Light 7s, 1923 (c)	102	4.83
Milwaukee Elec. Ry. & Light 7½s, 1941 (b)	103	7.20
Monongahela Val. Trac. Co. Gen. Mtge. 7s, 1923 (c)	100	7.00
Memphis St. Ry. 5s, 1945 (a)	79	6.50
Northern Ohio Trac. & Lt. 6s, 1926 (c)	98	6.50
Nashville Ry. & Light 5s, 1953 (a)	94	5.40
Portland Ry. P. & L. 1st & Ref. Ser. "A" 7½s, '46 (c)	103	7.24
Topeka Ry. & Light Ref. 5s, 1933 (c)	85	6.80
Tri-City Ry. & Light 5s, 1930 (c)	94	5.90
United Light & Rys. Ref. 5s, 1932 (c)	89½	6.50
United Light & Rys. Notes 8s, 1930 (c)	104	7.05

TELEPHONE AND TELEGRAPH COMPANIES

	Asked Price	Yield
American Tel. & Tel. 5-Year 6s, 1924 (c)	102	4.90
Bell Tel. Co. of Canada 1st 5s, 1925 (b)	98½	6.00
Bell Tel. Co. of Canada 1st 7s, 1925 (b)	104½	5.65
Bell Tel. Co. of Pa. 1st Refund. 7s, 1945 (c)	109	6.10
Chesapeake & Potomac Tel. Co. Va. 1st 5s, 1943 (c)	97	5.05
Home Tel. & Tel. Co. of Spokane 1st 5s, 1936 (c)	98	5.50
Western Tel. & Tel. Co. Coll. Trust 5s, 1932 (b)	97	5.35

* Investors should note that the "asked" price on a bond may vary from 1 to 5 points from the "bid," depending upon the activity of the security.

GENERAL GAS & ELECTRIC CORP.

The 7% Bonds of the New Company Which Succeeds the Old Organization Show Good Yield—Prospects Are Improving

A BOND with a yield of close to 8% in a public utility holding company which has just gone through a recapitalization plan but which appears to have good prospects together with conservative management seems to be offered in the bonds of the new General Gas & Electric Corporation which, under plans passed by stockholders, succeeds the old General Gas & Electric Co. Object of the recapitalization plan was to enable the new company to be in position to offer new securities to provide for needed expansion and to anticipate bond issue which mature in 1929.

The series A sinking fund bonds of the General Gas & Electric Corporation are now being traded in, though new bonds exchanged for those of the old company will probably not be available for delivery until after October first. Bonds maturing in 1952 are offered around 90, at which price a yield of 7.90% is given. The bonds, of course, are not of the highest quality but offer a suitable medium for business men's needs.

The new company succeeds the old one, taking over all its assets and liabilities and providing for exchange of old 6% for new 7% bonds in addition to other exchange features which should not interest prospective purchasers. Its activities embrace holdings in more than twenty public utility operating companies throughout eastern states. Approximately 70% of its earnings are derived from holdings in electric companies, the balance being divided between gas and traction companies. The fact that reorganization has just been completed no doubt accounts in good part for the comparatively high yield, but as the company is conservatively managed and earnings are improving, the bonds can be recommended to those seeking high return for a pull

Latest earnings statement is for June, which showed gross was increasing at a yearly rate of $500,000 while net for fixed charges was at an annual rate of $220,000 in execess of previous June.

Plan of recapitalization provides for ample sinking fund arrangements to retire a good amount of the 7% bonds each year and dividends on the cumulative preferred stock in the new company will probably be inaugurated shortly.

CORRECTION

In the Sept. 16th issue, in the article entitled "Are Department Store Stocks Good Investments?," Macy & Company's estimated earnings were placed at 3.6 millions net, equal to $9.40 a share. This should have read 2.6 millions net, equal to $5.40 a share. Typographical errors were responsible for this misstatement.

FOREIGN TRADE & SECURITIES

(Continued from page 825)

Much the same may be said about the sugar industry, whose export figures for recent years show such an enormous increase over pre-war times. This is a temporary effect of war-time devastation and post-war conditions. Normally many European countries, notably Germany, which now buy sugar from us or have it refined here on a toll basis, are not only capable of meeting their own needs from sugar-beet production but are actually competitors of ours in other sugar markets. The restoration of normal conditions, meaning a smaller export trade, will probably come sooner in the sugar industry than in petroleum. The long-range effect of the foreign-trade factor, to the extent that it has any influence, is therefore bearish.

In the copper industry the situation is decidedly different. It will be noticed that recent exportation of copper has been well below the pre-war level, largely the result of poor exchange conditions in Germany and France and the destruction of markets all around because of reduced purchasing power. As normal conditions return there will be a demand for much manufactured copper equipment to replace that which has been allowed to run down, apart from expansion in the utilization of water-power. Electrical equipment plants which are running at low ratios of capacity because of lack of fuel, uncertain markets, and other reasons will become heavy purchasers of copper, and adding to this the secular upward trend in the consumption of copper it seems reasonable to expect, sometime in the future, a large and steady increase in copper exports which should react favorably on the industry.

In the case of an industry manufacturing highly-finished products such as automobiles the important factors are so numerous and so conflicting that it is difficult to forecast what the future of the export trade will be. On the one hand we have the enormous possibilities of the untapped European market for cheap and middle-grade cars, should the demand for them, in proportion to the population, ever approach the dimensions of the American demand. On the other hand, we have the lower purchasing power for the time being, the lower standard of living in general, and the principle which we began by formulating that foreign countries want to push America more and more into the position of a supplier of raw materials rather than a producer of finished goods in order to keep manufacturing profits within the country.

The export position of the steel industry, which has already declined below the pre-war level, bids fair to decline somewhat further and then be stabilized at the lower level, with temporary fluctuations due to American ability to compete with foreign manufacturers. The first flush of imperative demand due to war-time losses has been filled, and equilibrium will

shortly be attained between American and foreign production.

American supremacy in large-scale manufacturing serves to counterbalance higher production costs due essentially to higher wages in the establishment and maintenance of this equilibrium.

The Leather Industry

This same situation occurs in the leather industry, with the addition of the factor of quality, in which American middle-grade and cheap shoes rank high at any given price-level, compared with the smaller-scale European production. In this industry the accumulated demand has been put off ever since the armistice while financial conditions in European consuming centers have on the whole grown worse, and the other great customers of the United States, South America and the East, have not improved their position compared with war years. With the increase in purchasing power that will come with a restoration to normalcy the American shoe industry stands to benefit heavily by an increase in its foreign trade.

Fertilizer

Of the three great classes of fertilizers America has a large degree of control over phosphates, is practically dependent on France and Germany for potash, and is striving with some measure of success to become independent of Chile and Europe as to nitrogen compounds. The growing use of cyanamide made from calcium carbide, and the production of nitrogen compounds from the nitrogen of the air, may make us independent of natural or artificial nitrates and ammonium compounds within a fairly short time, and once our production has become sufficient for our own needs there will undoubtedly be an attempt to expand into the export market.

Our sales abroad of phosphates may also be expected to increase as scientific agriculture spreads, and as our older customers, notably Europe, increase in purchasing power.

JULIUS KAYSER & CO.

(Continued from page 843)

issue with a good margin to spare and the large working capital of the company this stock can be regarded as a decidedly attractive business man's investment.

The common stock at present levels of 46 has advanced about twelve points from the low price reached in May of this year when it was listed. Its record high price is 48⅝. The immediate market course of the stock will probably depend upon what dividend action directors take. A $4 rate should justify a good advance from present levels, although a $3 rate would be satisfactory as the stock would be considered on its earnings as possessing possibilities of a higher rate in the near future. **This stock has joined very little in the upward movement of the past few months and in view of the excellent earnings would appear to offer good prospects of further appreciation in value.**

Over-the-Counter

IMPORTANT ISSUES

Quotations as of Recent Date

Aeolian-Weber	.. — 15
Pfd.	30 — 60
American Piano	68 — ..
Pfd.	82 — 87
American Type Founders	61 — 65
Atlas Portland Cement	60 — ..
Babcock & Wilcox ex-div.	119 —122
Borden Co.	113 —115
Bucyrus, pfd.	95 —100
Celluloid Co.	90 — 95
Childs Co.	114 —118
Crocker Wheeler	53 — 58
Pfd.	95 —100
Jos. Dixon Crucible	134 —138
Gillette Safety Razor Co.	*225 —230
Ingersoll-Rand	160 — ..
New Jersey Zinc	154 —156
Niles-Bement-Pond	48 — 50
Phelps-Dodge Corp'n.	160 —170
Royal Baking Powder	110 —118
Savannah Sugar	45 — 50
Pfd.	90 — 94
Singer Mfg. Co.	98 —100
Thompson-Starrett	60 — ..
Ward Baking Co.	102 —106

* Listed on N. Y. Curb Exchange.

Continued Good Demand

THERE was a continued good demand for unlisted securities, especially the group shown in the above table, during the fortnight.

A feature of the market was American Type Founders stock, which readers of this department saw reviewed in the last issue. The facts brought out concerning this company, particularly its unbroken 24-year dividend record and the offered yield of 6.90% on the stock were evidently the basis for the investment demand. At the current bid price of 61, the issue offers a yield of 6.48%, which is reasonably attractive in view of the company's strong position and good outlook.

Other features in the Over-the-Counter group included a further advance to 113 in Borden Co. stock. This company, dealing certainly in a primary necessity of life, has done a gross business of more than $122,000,000 in a single year. New Jersey Zinc continued in firm demand at a price to yield only about 5.19%, indicating confidence in something more than the current dividend rate.

Crocker-Wheeler

Shares of the Crocker-Wheeler Company moved up substantially, calling attention to the position of this company. According to well-informed comment, the company's position has been substantially improved in recent months.

Crocker-Wheeler manufactures generators, motors, transformers and other electrical equipment, specializing in dynamo-equipment for driving factory, hotel and railway machinery. The concern is not a large one, as modern concerns go, but it is one of the oldest in the business, having been formed back in 1888. The company has plant facilities in Ampere, New Jersey, and maintains district and service stations in thirteen of the larger cities of the United States.

The company has no funded debt. Its capitalization consists of an authorized $1,000,000 of 7% cumulative preferred and an authorized $4,000,000 common, par value $100, of which there is outstanding: Preferred, $766,800; Common, $2,051,800.

The preferred has full voting power, is subject to call in whole or in part on 30 days' notice at 108 and dividend. Dividends on the preferred have been paid regularly. At a price below par, it has reasonably good attractions to the enterprising investor.

Dividends on the common stock have been somewhat irregular, but disbursements from year to year have averaged high. Over the thirty-one years since 1891, the common has received an average of 5½% in cash, beside two scrip dividends of 10% and 5%, respectively, and a stock dividend last year of 10%. From 1911 to 1921, inclusive, without considering the recent stock dividend, the issue has received an average return of 6%.

In 1919 and 1921, the company suffered reverses which resulted in deficits being shown on its stocks. The losses were small, however, last year's deficit after charges amounting to only about $265,000.

In the current year, the very substantial improvement in business generally, and particularly in the electrical industry, has put an entirely different complexion on Crocker-Wheeler's results. At the present time, according to well-informed sources, the company's business is considerably more than twice that of last year, and there is little doubt that a comfortable surplus will be earned for the year on the shares.

As an issue whose dividend rate is in some doubt, Crocker-Wheeler common can scarcely be recommended for investment. As a speculation, however, it possesses some attractions, although this Department would prefer to regard it as a desirable seasoning for a complete program, rather than an issue which should be concentrated upon to the exclusion of others.

BRIGHTER OUTLOOK FOR ERIE

(*Continued from page* 839)

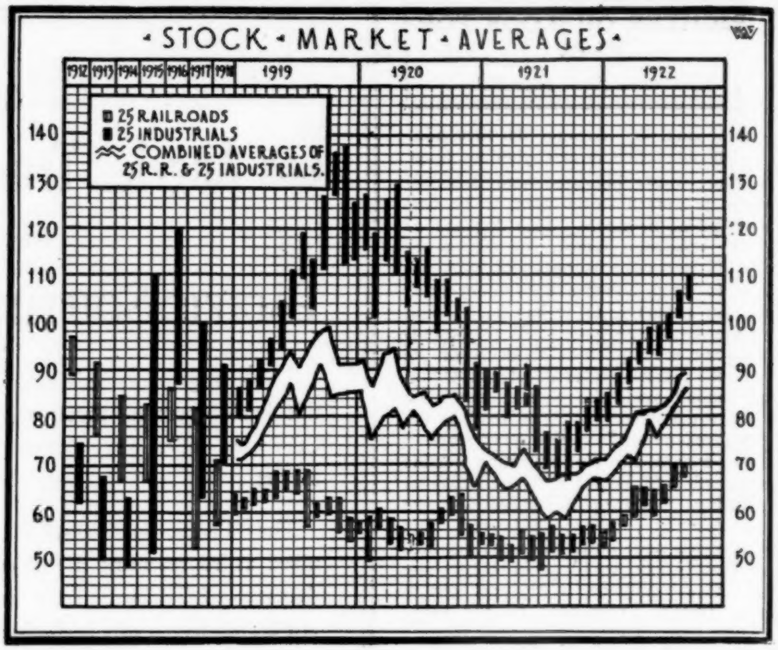
General Lien 4s. Around 106 they offer a fairly attractive return, yielding 6.1%.

As previously indicated both first and second preferred stocks seem to be well protected as to assets. This disposes of a very important factor, for with a return of normal earnings Erie will not have to keep plowing the money back into the property, as it has been doing for the past fifteen years. As to the outlook for a resumption of dividends on the first and second preferred stocks within the coming year, the chances for such action are not remote. The road in the first three months of this year made a strong comeback. Net operating income amounted to $2,690,264, compared with an operating deficit of $1,442,234 for the corresponding period of last year. The bituminous and anthracite coal strikes cut heavily into earnings in May, June and July, conditions in the last month being further aggravated by the shopmen's strike. These unfavorable factors, however, only produced a temporary setback, which should be more than made up in the last four months of the year.

With the coal strikes settled, every effort is being made to speed up production. Coal shipments will undoubtedly be abnormally large for the balance of the year to make up for the shortage which is bound to exist as a result of five months' of idleness. Only recently Erie ordered a temporary embargo on perishable foodstuffs to take care of the large anthracite coal shipments to the east. Before long Erie should demonstrate its ability to earn larger balances on its preferred and common securities than heretofore. In the period from 1912 to 1917, inclusive, earnings averaged over $10 a share on the first preferred and $19 a share on the second preferred. These seemingly paradoxical figures exist because there are almost three times as many shares of the first preferred outstanding as there are second preferred shares. This makes the fluctuations on the junior issue very large. For example, in 1914 nothing was earned on this issue, but in the following year a balance of $39.50 was reported on the 160,000 shares.

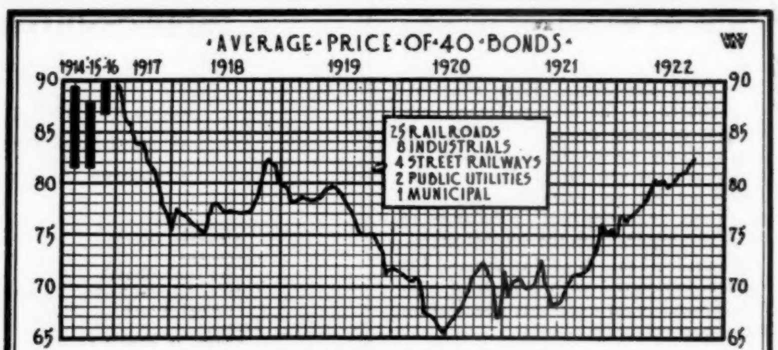
The senior issue is selling around $25 a share, compared with a high of 59¼ in 1915, and is an excellent speculation at the current price.

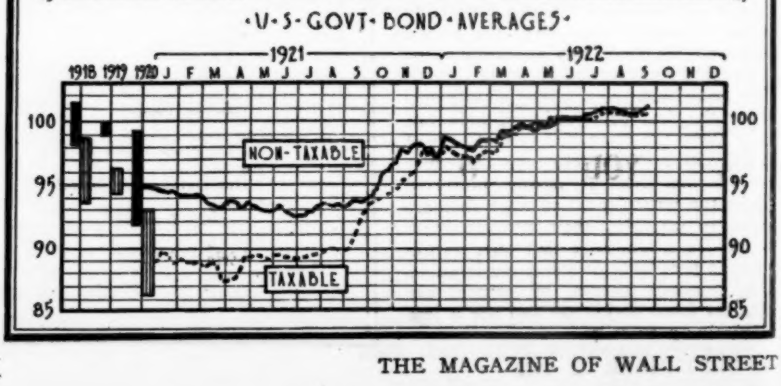
As it only requires $640,000 above first preferred dividends to cover the second preferred dividend, **this stock must be considered the best speculation of the Erie securities.** It is selling eight points below the first preferred and only one point above the common and sold as high as 54½ in 1916. In combing the entire list of non-dividend paying preferred stocks the writer can find none that are selling so far below their intrinsic worth as this issue, and none that offer as excellent a possibility of enhancing in value. **The common shares, of course, are very far from dividends and are a less desirable speculation.**



MARKET STATISTICS

	N. Y. Times 40 Bonds	Dow, Jones Avgs. 20 Indus.	Dow, Jones Avgs. 20 Rails	N. Y. Times 50 Stocks High	N. Y. Times 50 Stocks Low	Sales
Monday, Sep. 11	82.28	182.05	93.99	90.23	89.19	1,003,320
Tuesday, Sept. 12	82.13	101.88	93.42	90.10	89.07	974,575
Wednesday, Sept. 13	82.23	101.10	92.55	89.97	86.61	1,171,447
Thursday, Sept. 14	82.38	100.79	93.67	89.73	88.17	1,124,336
Friday, Sept. 15	82.34	100.99	93.70	89.83	88.71	1,045,638
Saturday, Sept. 16	82.44	100.43	93.38	89.24	88.46	464,168
Monday, Sept. 18	82.30	98.88	91.97	88.20	86.42	1,283,160
Tuesday, Sept. 19	82.35	99.93	92.70	88.35	87.04	843,079
Wednesday, Sept. 20	82.41	100.14	92.70	88.80	87.98	897,871
Thursday, Sept. 21	82.54	98.37	91.36	88.41	86.63	1,057,728
Friday, Sept. 22	82.47	98.55	91.36	87.23	86.00	979,449
Saturday, Sept. 23	82.44	99.10	91.88	87.43	86.83	337,030





HOW THE LEADING STOCKS COMPARE

(Continued from page 824)

given, therefore, to any one of these groups as a medium for investment, the writer would choose the railroads in preference to the industrials or the public utilities.

This does not mean, of course, that either the industrials or public utilities are in an unfavorable position. On the contrary, the leading members of these groups are doing well and probably will continue for some time to come. It does mean, however, that the industrials and public utilities in the writer's estimation have proceeded the furthest along the road toward the discounting of favorable developments and that the better market opportunities are to be had in the railroads, as a group.

While it is true that the railroads as a group are in the most favored position with respect to the percentage earned on the market price of these securities, this does not mean that every member of the railroad group listed in this table is more attractive than every member of the industrials or the public utilities. Glancing over this table, it will be seen that some industrials and public utilities are showing a bigger percentage on their market price than even the railroads. Thus North American among the public utilities is showing 21.27% on its market price (though earnings are abnormally high) whereas Illinois Central, for example, is showing only 12.65. Among the industrials, it will be found that Hupp Motors is earning 26.08% on its market price whereas Pennsylvania R. R. is earning only 15.53%.

It may of course be that 15.53% for Pennsylvania is a great deal more to be considered than 26.08% for Hupp. Pennsylvania, after all, is a great railroad with a stabilized earning power over many years whereas Hupp Motor, though an excellent example of a well-managed industrial enterprise, is a comparatively recent thing. By this it is meant, that percentages earned on market price are by no means the only criterion to use in making a comparative test of stock values. There are many other things to take in consideration. However, the purpose of this article is not to make a general comparison between stocks but to show which are earning the most on their market price. The value of this is that, in a general way, it gives the investor a better opportunity to judge the market position of the shares.

Conclusion

In conclusion, the important points brought out by this analysis are that the railroads as a group have the furthest to go in the market and that the public utilities have advanced the most. Within each group, it will be seen that marked contrasts abound. Thus, among the railroads, Big Four is earning 38.11% on its market price whereas Erie 1st pfd. is earning 11.40%. Obviously, Big Four is the more attractive purchase.

Among the industrials Hupp leads with

26.08% whereas Loew's Inc. trails with 10%. An even wider contrast is shown in the public utilities with North American showing 21.27% on its market price while Consolidated Gas has already advanced so far that it is showing only 7.08% on its market price. It would seem, therefore, that on this basis, North American is a more attractive purchase than Consolidated Gas.

The percentage of earnings as related to the market position of these shares should *not* be confused with the actual yields of these issues. The two have nothing to do with each other. Yields and dividends have *not* been taken into consideration in this article. The purpose has been *only* to compare stocks with respect to the showing their earnings are making in contrast to the market position of the stocks.

The important feature of this study is not only that it gives a clue as to which stocks are most attractive but that it also affords an idea as to which are comparatively unattractive. In general, it would seem to be the case that the stocks showing the best percentage on their market price are the ones that present the best opportunities from a market view-point.

IMPROVING POSITION OF NORTHERN PACIFIC

(*Continued from page* 837)

that until the shopmen's strike came, all roads (and the Northern Pacific among them) were improving in operating efficiency, and July figures are somewhat interesting. I give the figures taken from Interstate Commerce Commission reports for the Northern, Great Northern and Burlington, all of which are operated closely:

JULY OPERATING RATIOS

	N.P.	G.N.	C.B.&Q.
Maintenance of way	15.41	14.9	14.15
Maintenance of eq'm't	13.05	8.3	15.00
Traffic	2.12	1.5	1.79
Transportation	35.38	36.2	41.14
Misc. and general	4.00	2.8	3.29
Total	69.96	63.7	75.37

SEVEN MONTHS, ENDING JULY 31ST

	N. P. (%)	G. N. (%)	C.B.&O. (%)
Maintenance of way	14.89	14.5	12.94
Maintenance of eq'm't	24.22	19.1	20.48
Traffic	2.00	1.9	1.52
Transportation	39.33	41.1	37.48
Misc. and general	4.31	3.6	3.49
	84.75	80.2	75.91

"Note that the Northern Pacific spent rather more relatively for maintenance than the other two roads, and that its "Transportation Expenses" compare favorably in July, and even for the seven months period considering the cheaper fuel of the Burlington. For the seven months ended July 31, 1917, the Operating Ratio of the Northern Pacific was 59.59%, so you can see what the effect of the war and governmental methods has been.

The net operating revenues per train mile for the Northern Pacific for July were $1.42, one of the best figures it has had since the Government took control

of the property on January 1, 1918. In July, in spite of the strike of the shopmen, there were only 21 locomotive failures and for the seven months ending July 31st, only 208 out of 14,306,648 miles run.

In these days when fuel is scarce and high priced it is doubly important to make each ton do as much work as possible. The I. C. C. furnishes figures each month comparing the fuel performance of important roads. Their report is based on the "Pounds of Coal per 1,000 Gross Tons," "Miles Handled Including the Locomotive and Tender"—and the results for July are as follows:

	Pounds
Chicago & Northwestern	147
Chicago, Milwaukee & St. Paul	129
Great Northern	122
Northern Pacific	115
Santa Fé	131
Chicago, Burlington & Quincy	140
Union Pacific	125

Northern Pacific figure shows good condition of locomotives and care in "firing" them.

"The Northern Pacific engine and fuel results have always compared well with other roads, but it is going to be difficult to get back to what you call "old time" percentages of operating expenses because of the higher wage costs, the greater price of fuel and higher prices for metallic articles of one kind and another.

In the territory served by the Northern Pacific is produced nearly everything that man uses, except tropical and semitropical fruits and products.

Grains and grass of all kinds; live stock; lumber and other building material; iron; steel; copper; lead and zinc; sugar, fruits and fish; and some oil.

As time passes, an enormous population can find homes and a living in this great empire.

The Dividend Situation

"This country is so vast and its population is increasing so rapidly that the Northern Pacific cannot help but continue on its successful course, in spite of some unfair competition and what might be called incidental disturbances, now and then. Like any business, which is well established and well located, its development is practically unlimited.

The western country which is served by the Northern Pacific is still in its infancy. Who can tell what the next fifty years has in store for it? Look back fifty years and note what was then ahead for the United States as well as the Northern Pacific. Jay Cooke and his followers prophesied well in 1870; but the outlook was even grander than it seemed.

"The Northern Pacific Board believes that conditions in the world at the present time and in the United States justify a conservative course as to dividends and they have declared dividends amounting to 5½% for the calendar year 1922. Under present uncertain conditions no one can wisely predict as to dividends in the future. If the country finally gets on a sound business basis and no unfortunate occurrences take place, the Northern Pacific is as well situated as any company west of the Mississippi River to pay dividends."

Canadian Securities Dept.

ACTIVE SECURITIES
Dealt in on Montreal Stock Exchange

Pulp & Paper	Recent Price
Abitibi	59½
Brompton P. & P.	30¾
Laurentide	93
Riordan P. & P.	6
Smith P. & P.	79
Spanish River	92¼
Pfd.	101½
Public Utilities	
Bell Telephone	116
Brazilian Traction	43⅜
Det. United	67
Montana Power	98

Public Utilities (Cont'd)	Recent Price
Ottawa Power	92
Quebec Railway	25½
Miscellaneous	
Asbestos	68½
Atlantic Sugar	59½
Brit. Empire Steel	14
2nd pfd.	35
Canada Cement	75
Canada S. S.	19
Pfd.	54
Dominion Bridge	81½
Dominion Textile	170

Canada's Recovery

ONE year ago today, the American visitor in Canada could take an American ten-dollar bill to a Canadian bank, and exchange it for eleven dollars in Canadian currency. In other words, the American dollar in Canada commanded a premium of 10%.

Not many months before that, an American ten-dollar bill brought $11.90 in Canada—a premium of 19%.

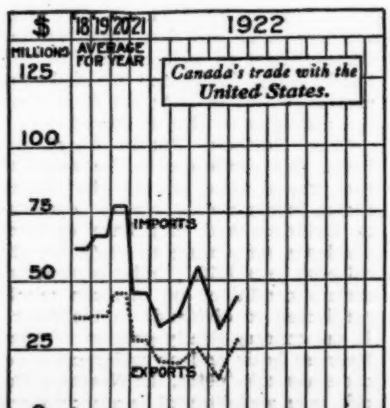
Today, the difference between the two currencies is so small as to be negligible. A differential of 1/64 of 1% measures the present premium, and some contracts have been made on absolute parity.

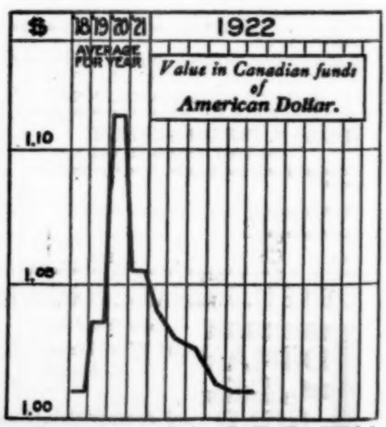
The disappearance of the premium of the American dollar in Canada is, in some part, the result of a contraction in American trade abroad; but in great measure it is the result of the expansion of Canadian trade and the very general and substantial improvement in the Dominion's economic position. The re-establishment of parity between Canada and America marks the ending of an era, as trying as it was heroic, in Canada's economic history.

In view of this recovery in Canadian affairs, American business men and investors are displaying considerably increased interest in their northern neighbor. The tendency derives added impetus from the friendship and amity which would naturally exist between two peoples who speak the same language and are in nearly absolute accord as regards customs and principles of trade and commerce.

The business man's interests center on Canada's products of foodstuffs, her vast timber lands, her mineral resources and asbestos mines. While the Dominion has undergone development on a colossal scale in the last quarter-century, the business man is aware that her territory still embraces one of the world's few remaining open spaces, and that a steadily growing market is certain to develop.

The investor looks to Canada's big industrial plants—British Empire Steel, Canada Cement, Dominion Glass—her famous pulp and paper mills, including Spanish River, Abitibi and Laurentide, her utilities and her railroads, especially the empire-building Canadian Pacific.





Two Charts, Prepared by the Colonization Department of the C. P. R., Which Trace the Upturn in Canada's Trade With the United States

In order to accommodate this growing interest in Canadian affairs, a "Canadian Department" has been installed in THE MAGAZINE OF WALL STREET. Its purpose will be to present, in brief, the salient facts of Canadian trade, commerce and finance, as they develop, as well as to discuss Canadian investment mediums, particularly those dealt in on Canada's chief stock exchange, in Montreal. The department, like all innovations in the magazine, will be kept flexible until the form having the greatest practical value to investors and business men interested in Canadian affairs has been determined. Meanwhile, suggestions from readers will receive, as always, most careful consideration.

Canada's Bumper Crops

As a nation which is largely dependent upon products of the farm for its prosperity, Canada's outlook for the coming year is greatly improved by reason of the prospects for a bumper harvest. Based on the estimates of the Dominion Government, the outlook is for an increase of no less than 20-million bushels in the harvest of wheat, and a gain of 83-million bushels is forecast in oats. The crop estimates, expressed in millions of bushels, compare as follows:

	1921	1922	Increase
Wheat	301	321	20.0%
Oats	426	509	83.0%
Barley	60	64	4.0%
Rye	21	37	16.0%
Flax	4	4.5	0.5%

The importance of a bountiful harvest in Canada is accentuated by reason of the comparatively low producing costs as compared with the United States.

Canadian Securities

For the investor, many of the securities dealt in on the Montreal Exchange offer attractive mediums of investment. Interesting instances include securities analyzed and recommended by Mr. White in the August 5th issue of this Magazine, which subsequently scored sharp advances.

At the beginning of this department, a table listing a number of the more active Canadian securities will be found. Later issues of the Magazine will find this table amplified by dividend rates and previous price ranges. As an indication of what return can be had from good Canadian securities at this time, the following group is offered:

	Present Div. Rate	Recent Price	Offd. Yield
Laurentide Co.	6%	93	6.45%
Spanish River	7	92	7.60
Spanish River pfd.	7	101	6.92
Dominion Textile	12	170	7.06
Montreal Lt. & Power	5	98	5.10

This group, it may be noted, is not listed as a recommendation, although the securities of the Spanish River company and of Montreal Light & Power appear particularly attractive. The purpose of the table is to show the prevailing yields offered by Canadian securities of the better grade for purposes of comparison with the American market. Later issues will analyze individual securities in the group shown, pointing out the important features of the more attractive issues.

WHAT IS AHEAD FOR THE SHIPPING STOCKS?

(*Continued from page* 841)

with the exception of the 35,200 shares of United Fruit stock which were sold last year. It may be roundly estimated that the current market values of the principal stock holdings are equivalent to between $20.00 and $25.00 a share on outstanding A. I. C. stock.

It is not the market value of the stock holdings which chiefly concerns a holder of the American International stock. What he should be most interested in is its commercial earning power. **It is a fact to be faced that the American International was not formed for the purpose of acquiring large blocks of stock in domestic corporations and likely it would be more conservative to consider these holdings as a matter of temporary policy forced upon the management by inabilty to use capital in the manner originally intended.**

Last year the American International was rather seriously hit by the collapse in South America. G. Amsinck & Co., a big subsidiary has been dealing there for seventy years. At the end of 1921 the American International showed about 15 millions accounts receivable, over 9 millions bills receivable and over 9 millions inventories. It is fair to assume that a large part of these receivables represented frozen credits in South America. It is also fair to assume that a great percentage of these receivables will be collected, but they will be paid off gradually and their final liquidation is not a matter of this year nor perhaps next year. In making up the books for 1921 American International made every effort to set up reserves to cover any possible losses. In doing this a surplus of two millions and a half at the end of 1920 changed to a deficit of almost six millions at the end of 1921. This represented drastic treatment and in view of the slight improvement in general foreign conditions, especially in South America, which has occurred since January 1st last, it is altogether likely that the reserve created will be adequate to meet existing conditions and to safeguard the general preservation of the company. In fact, they may prove to be over-adequate.

The question of new business is an uncertain one. About a year ago the company joined in the contract to build 128 miles of railroad in Bolivia and it is assumed that there will be some profit in this contract. While business is as lean as it is, the chief source of revenue must be dividends on the stock of subsidiaries which are more than earning their way.

As the writer sees it there is little question of the fundamental asset value of the $49,000,000 American International common stock, all of which is $100 paid in cash per share. There are, however, no definite signs to show that the earning power is definitely on the way to substantial recovery. That must await the awakening of export and import business and the restoration of the ability of foreign countries to finance their internal improvements. **It does not seem as if**

the shares had immediate attractions though the purchaser who might wish to take on the stock as a long-pull commitment will probably eventually profit from this commitment.

AMERICAN SHIP AND COMMERCE CORPORATION

AMERICAN SHIP & COMMERCE CORPORATION is a holding company formed in 1919. At that time it acquired control of William Cramp & Sons Ship & Engine Building Company and now owns over seventy per cent of Cramp stock. Cramp is still the principal and most powerful subsidiary, but American Ship & Commerce diversified its interests shortly after incorporation by acquiring control of the Kerr Navigation Company—a steamship operating concern. The original fleet acquired from the Kerr Navigation Company consisted of seven vessels which were sold in 1921 because the vessels could no longer be operated profitably.

At present American Ship & Commerce owns or controls about 127,000 tons of ships. Operating subsidiaries are the Atlantic Mail Corporation, the Shawmut Steamship Company, the United American Lines and the American Ship & Commerce Navigation Corporation. Perhaps the outstanding development of the American Ship & Commerce ocean traffic was its agreement with the Hamburg-American Line by which trade routes, formerly controlled by Germany were reopened. American ship & Commerce has a cargo service between Atlantic ports and Hamburg and also a Hamburg-South American service.

Naturally, earning power has been clouded by general conditions and the deficit of 1921 is directly attributable to the world-wide shipping depression. While the shipbuilding business has also suffered, the Cramp Co. has maintained a strong position. In July, this year, the company paid an extra cash dividend of $25 a share, which meant almost $3,000,000 to American Ship & Commerce. In effect, the extra dividend was to transfer surplus resources from the treasury of the subsidiary to the treasury of the parent concern. Cramp regularly pays dividends at the rate of $4 a year.

If there is to be world-wide revival of the shipping industry, American Ship & Commerce seems fairly well prepared to meet the situation. In the meantime, it does not seem reasonable to expect a decided development in earning power. No dividends have been paid and there is nothing to suggest that payments are imminent. The financial condition is apparently satisfactory, but until some signs of sustained earning power can be discerned, the stock is in an entirely speculative position. **At present it appears to be a fairly good long pull commitment, but increase in market value, excluding possibilities of manipulation, seems certain to be very gradual.**

PACIFIC MAIL STEAMSHIP

PACIFIC MAIL STEAMSHIP is controlled jointly by W. R. Grace & Co. and American International Corporation. The company owns a fleet of twelve steamships and real estate mainly on the Pacific Coast and in the Far East. In addition to the Trans-Pacific line, the company has instituted a New York-San Francisco service and has a San Francisco-Central America Line.

Pacific Mail has only $1,500,000 stock, shares having a par value of $5. The last dividend was paid in December, 1920. Like all steamship companies, Pacific Mail had big earnings in the five years from 1916 through 1920, but now, of course, must wait for the re-awakening of the export and import trade.

Ordinarily the stock is not active and is not an issue in which there is much public interest. It is possible that when the ship subsidy bill is again under active discussion Pacific Mail shares may be taken up in a speculatve way as a low-priced shipping issue.

"FRUIT" AND AGWI

AS both United Fruit and Atlantic, Gulf & West Indies have been treated in the September issue of the Magazine they are not discussed in this article. United Fruit is strong in earnings and assets, but AGWI is in an uncertain speculative position.

WHICH IS THE BEST $6 STOCK?

(*Continued from page* 845)

cellent opportunity. Its market action at the present time indicates higher prices, so that it is also attractive from the speculator's viewpoint.

Southern Pacific, under the MAGAZINE OF WALL STREET rating, is given 29 points out of a possible 30. One point less than Atchison is given on earning power for the reason that, while its earnings have held up well, they have not increased as rapidly as Atchison's. For the first seven months of 1922 earnings, allowing for seasonal fluctuations, were at the rate of $7.15 per share per annum on the stock. The outlook for the last months of the year is favorable and it is likely that for the full year around $9 a share will be earned on the stock.

For the past ten years earnings of Southern Pacific have averaged $10.81 per share per annum, $6 per share having having been paid out in dividends. In Jan., 1921, Southern Pacific segregated its California oil properties offering shares of the Pacific Oil Co. to stockholders at $15 a share. This brought approximately fifty million dollars into Southern Pacific treasury and as a result this road is now one of the strongest financially in the country. As of Dec. 31, 1921 working capital was forty-four million and cash and demand loans total twenty million.

It has been frequently remarked that Southern Pacific in the future will face severer competition from the Panama Canal and while this may be true to a certain extent there are many favorable factors that should more than offset any loss from this cause. One of the most important is the company's very valuable holdings in Mexico from which returns

have amounted to little or nothing since the outbreak of the revolution in that country. A very material source of revenue can ultimately be expected from the company's investment in Mexico, not only from the railroad but also from valuable oil concessions held.

No early increase in Southern Pacific dividend is anticipated but it can be considered as a very sure $6 dividend payer in view of the stability of its earnings and financial strength. At present price of 94 the return on the investment is 6.4%, which is attractive for an old line investment such as this.

CLEARING THE WAY TO PROSPERITY

(*Continued from page* 828)

an increasing draft upon bank lending, and hence to help the advance of money rates while cutting the values of old securities. This has made the commodity price situation peculiarly interesting. Bradstreet's index shows, for September 1, a level of $12.07 or a figure not very materially different from that of the past few weeks. Other indexes show a slight tendency to resumption of the upward movement which was suspended during the acute period of the strikes. Many factors are undoubtedly operating to move commodity prices upward and should they succeed in any great degree the conditions already outlined might be expected to come into operation in a more or less effective way depending upon the extent to which the prices advance.

The business outlook, all things considered, is favorable. A moderate reduction in the activity of bank credit as shown by a debit turnover of only about $34,500,000,000, is seasonal chiefly, the activity being still much ahead of that of last year. Bank credit is being freely used in financing business and in buying, and while the farmer's purchasing power is not as great as it would be were agricultural prices higher, this is partly offset by the improved purchasing power of labor due to suspension of strikes and increased wage rates.

Barring the unfavorable foreign conditions, there is no reason to question the continuance of good business during the autumn; and, as a result, the presence of good investment demand for securities. Whether the bond market is not now at or near its peak is a matter already considered in some detail, but there is abundant opportunity for gain in individual shares of the industrial group, provided that business conditions continue to improve, and hence to warrant the expectation of higher earnings.

Those who reckon upon a continuance of abnormally cheap money as a means of maintaining prices would seem to be counting upon a state of things that is already tending to pass away. But there is no reason to expect either stringency or substantial increase in money costs for legitimate business or investment. From every point of view the outlook is thus about as favorable as it can be, bearing in mind the peculiar international status.

DIVIDEND NOTICES

DRIVER-HARRIS COMPANY

HARRISON, N. J.

Notice of Quarterly Dividend
Preferred Stock Dividend No. 40

The Board of Directors, at a meeting held on September 15, 1922, declared the regular quarterly dividend of one and three-quarters per cent. (1¾%) on the outstanding preferred stock, for the quarter ending September 30, 1922, payable October 1, 1922, to all stockholders of record at the close of business on September 21, 1922. Transfer books will close from September 21, 1922 to October 1, 1922. Checks will be mailed.

STANLEY M. TRACY, Treasurer

PACIFIC GAS AND ELECTRIC CO.

COMMON STOCK DIVIDEND NO. 27

The regular quarterly dividend of $1.25 per share upon the Common Capital Stock of this Company will be paid on October 16th, 1922, to shareholders of record at close of business September 30th, 1922. The transfer books will not be closed and checks will be mailed from the office of the company in time to reach stockholders on the date they are payable.

A. F. HOCKENBEAMER,
Vice-President and Treasurer.

San Francisco, California.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY

A quarterly dividend of 2% ($1.00 per share) on the PREFERRED Stock of this Company will be paid October 16, 1922.

A Dividend of 2% ($1.00 per share) on the COMMON Stock of this Company for the quarter ending September 30, 1922, will be paid October 31, 1922.

Both Dividends are payable to Stockholders of record as of September 30, 1922.

H. F. BAETZ, Treasurer.

New York, September 20, 1922.

Paramount Pictures

To the Stockholders of
FAMOUS PLAYERS-LASKY CORPORATION

New York, September 11, 1922.

PLEASE TAKE NOTICE that the regular quarterly dividend at the rate of $2.00 per share, on the preferred capital stock of this Company issued and outstanding, has this day been declared, payable November 1st, 1922, to stockholders of record at the close of business on October 16th, 1922.

ELEK JOHN LUDVIGH,
Secretary.

HUPP MOTOR CAR CORPORATION

Preferred Dividend No. 28

Detroit, Mich., September 14, 1922.

The Directors have declared a quarterly dividend of 1¾% on the 7% cumulative preferred stock, payable October 1, 1922, to stockholders of record September 20, 1922. Checks will be mailed.

A. VON SCHLEGELL, Treasurer.

BAYUK BROS., INCORPORATED

Philadelphia, Pa.
September 27th, 1922.

Quarterly dividend of 2% on First and Second Preferred Stocks of this corporation has been declared payable on October 15th, 1922, to the stockholders of record September 30th, 1922. Checks will be mailed.

HARVEY L. HIRST, Secretary.

LIVERMORE'S METHODS ANALYZED

(*Continued from page* 821)

ing to get away with and I let them have it all at once."

He did not say how much he bought, but 10,000 shares under such circumstances would be a fair commitment. He might have bought more. But the interesting part of this transaction is that both at the low point and at the high point he anticipated correctly and his anticipations were not changed during the in-between gyrations of the stock. A good many people, buying a stock at 40 and seeing it up to 60, might have said, that's 50% profit, or 100% on the margin I used, and I will take it; but at 60 all he saw was a temporary halting place. The stock wiggled around in that range, then rose straight to 79 without a three-point reaction. On the come-back to 73 any experienced tape student could have seen more accumulation. Then came another drive up to 89, a small reaction and a rapid bulge to a new high, 93¼. The come-back to 88 preceded a second attempt to force a new high accompanied by violent manipulation for the purpose of covering up the distribution. It was at this stage that he "let them have it all at once" and 93¼ proved to be the top.

Studebaker did not touch the 90 figure for a long while after that. Whether the inside pool succeeded in getting out or not, I do not know, but the issue was dropped back to 70 and eventually to 65, either of which figures fully justified Livermore's profit-taking.

This was not his only campaign during the 101-point rise in Studebaker from 38 to 139, but the one above mentioned is sufficient to indicate the way in which he anticipates coming changes in industrial and technical stock-market conditions, as well as the probable intentions of the pools of large operators who are endeavoring to extract a large profit from the market fluctuations of stocks.

From the above we conclude:

That silence and seclusion are essential to the formation of sound, clear and independent judgment.

As in any other line of work, one must concentrate. Thinking, planning and execution of business in this field can best be accomplished away from your broker's office.

One requisite is poise.

A knowledge of psychology is an important adjunct to an operator's mental equipment.

Clear-headedness grows out of a good physical condition and a certain amount of exercise is necessary thereto.

Insight, combined with a shrewd interpretation of the news is absolutely essential, for large events sometimes hang upon small news items.

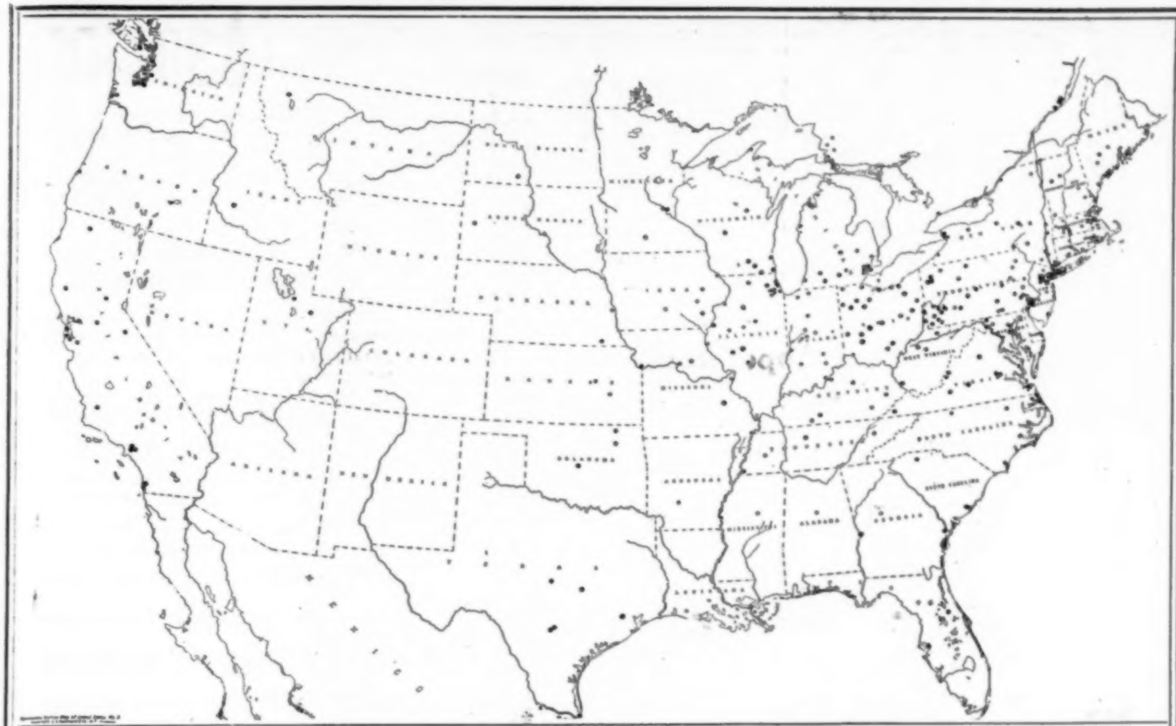
The effect of the news is an index to character of the market, the attitude of large interests and their buying or selling.

Speculation in its truest sense, calls for anticipation.

The tape reflects the operations and motives of large operators or inside pools.

The big money is in the long swings.

(To be continued in an early issue.)



Look at the Map

The dots show the locations of subscribers to **The Investment and Business Service.** They are scattered all over the country—some of them thousands of miles away.

But the man in Portland, Oregon, or Los Angeles, California, who is trading in stocks on the advices contained in this Service, has all the advantages enjoyed by the subscriber in New York; for upon request from distant subscribers we send a night letter containing the gist of each regular or special advice issued by us. They get this the next morning—at the same time the man in New York receives his mail.

The same is true of **all the other** localities indicated by dots on the map. **All subscribers** have ample time in which to place their orders before the opening of the market.

You will observe that there are subscribers in your vicinity, or even farther away from New York than you are. **All of these people have reaped large profits from this Service** during the bull market which has been under way for many months past.

Try out the Service for three months for $30. The regular cost of it is $100 for a year.

— — — — — — — — — — — — — — — — — — — *COUPON* — — — — — — — — — — —

With your subscription list your present holdings for an opinion.

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The Investment and Business Service of
THE MAGAZINE OF WALL STREET,
42 Broadway, New York City.

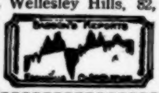
Gentlemen: Enclosed find my check for { $100 / $30 } for the Investment and Business Service, to be sent me once a week for { an entire year / or three months } beginning with the next issue.

Name ....

Address ....

Wire service wanted — Yes ☐ No ☐

Sept. 30



Securities and Commodities Analyzed in This Issue